NEW ISSUE-BOOK-ENTRY ONLY

In the opinion of Bond Counsel, under existing law and assuming the accuracy of certain representations and subject to compliance with certain covenants, interest on the 2007 Bonds is not included in gross income for federal income tax purposes (except, with respect to any 2007-C Bond, for any period during which such 2007-C Bond is held by a "substantial user" of the facilities financed with the proceeds of such 2007-C Bond or a "related person" to such a substantial user within the meaning of Section 147(a) of the Code). However, interest on the 2007-C Bonds, but not the 2007-A Bonds, is treated as an item of tax preference for purposes of computing the federal alternative minimum tax imposed on certain taxpayers, and interest on the 2007-A Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. In addition, in the opinion of Bond Counsel, the interest on the 2007 Bonds and any profit made from their sale are exempt under existing law from Massachusetts personal income taxes, and the 2007 Bonds are exempt from Massachusetts personal property taxes. However, interest on the 2007 Bonds is included in the measure of Massachusetts estate and inheritance taxes and certain Massachusetts corporate excise and franchise taxes. Bond Counsel expresses no opinion regarding any other tax consequences arising with respect to the 2007 Bonds. See "TAX EXEMPTION" herein.

massport

$83,590,000
MASSACHUSETTS PORT AUTHORITY
$51,465,000 Revenue Bonds, Series 2007-A (Non-AMT)
$32,125,000 Revenue Refunding Bonds, Series 2007-C (AMT)

Dated: Date of Delivery **Due: July 1, as shown on page (i) hereof**

The 2007-A Bonds and the 2007-C Bonds (collectively, the "2007 Bonds") are being issued to finance certain capital improvements and related costs at Boston-Logan International Airport and to refund certain previously issued Bonds, as described herein. The 2007 Bonds will be secured on a parity basis with the Authority's outstanding senior revenue bonds, as more fully described herein. **The 2007 Bonds will be payable solely from Revenues of the Authority which are pledged under the 1978 Trust Agreement and from certain funds and accounts held by the Trustee, all as described herein. The Authority has no taxing power. The 2007 Bonds will not constitute a debt, or a pledge of the faith and credit, of The Commonwealth of Massachusetts or of any political subdivision thereof.**

The 2007 Bonds will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). Purchasers will acquire beneficial ownership interests in the 2007 Bonds in denominations of $5,000 or integral multiples thereof and will not receive physical delivery of bond certificates. So long as Cede & Co. is the registered owner of the 2007 Bonds, principal, premium, if any, and interest will be payable by U.S. Bank National Association, Boston, Massachusetts, as Trustee (the "Trustee"), to Cede & Co., as nominee for DTC. See "THE 2007 BONDS – Book-Entry Only Method."

The 2007 Bonds will bear interest from their dates of original delivery, payable each January 1 and July 1, commencing January 1, 2008.

The 2007 Bonds are subject to optional and mandatory redemption prior to maturity as described herein.

The scheduled payment of principal of and interest on the 2007 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2007 Bonds by FINANCIAL SECURITY ASSURANCE INC. (the "Bond Insurer").

FSA®

See page (i) hereof for maturities, principal amounts, interest rates, and prices or yields.

The 2007 Bonds are offered when, as and if issued by the Authority and received by the Underwriters, subject to the receipt of an unqualified approving opinion as to legality of Ropes & Gray LLP, Boston, Massachusetts, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Authority by its Disclosure Counsel, Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, and for the Underwriters by their counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. Government Finance Associates, Inc., New York, New York, serves as Financial Advisor to the Authority. Delivery of the 2007 Bonds to DTC or its custodial agent is expected in New York, New York on or about June 7, 2007.

UBS Investment Bank

Bear, Stearns & Co. Inc. **Citi** **Lehman Brothers**

May 31, 2007

Massport Facilities

Approximate Massport Property Line

N

0 1500 3000
in feet

Massachusetts Port Authority
Capital Programs Department

Notes:
This drawing is intended for informational purposes only and no use may be made of the same without the express written permission of the Massachusetts Port Authority ("Massport" Massport does not certify the accuracy, information or title to the properties contained in this plan nor make any warranties of any kind, express or implied, in fact or by law, with respect to any boundaries, easements, restrictions, claims, overlaps or other encumbrances affecting such properties.

Image Source: MassGIS April, 2005

Massachusetts Port Authority
$51,465,000
Revenue Bonds, Series 2007-A (Non-AMT)

Maturity (July 1)	Amount	Interest Rate	Yield	CUSIP[*]	Maturity (July 1)	Amount	Interest Rate	Yield	CUSIP[*]
2008	$ 770,000	3.500%	3.600%	575896CD5	2019	$1,380,000	4.100%	4.150%	575896CQ6
2009	945,000	3.625	3.660	575896CE3	2020	1,435,000	4.125	4.250	575896CR4
2010	975,000	3.625	3.720	575896CF0	2021	1,495,000	4.250	4.300	575896CS2
2011	1,015,000	3.700	3.740	575896CG8	2022	1,560,000	4.250	4.350	575896CT0
2012	1,050,000	3.750	3.780	575896CH6	2023	1,625,000	4.250	4.400	575896CU7
2013	1,090,000	4.000	3.820	575896CJ2	2024	1,695,000	4.375	4.450	575896CV5
2014	1,135,000	4.000	3.870	575896CK9	2025	1,765,000	4.375	4.500	575896CW3
2015	1,180,000	4.000	3.940	575896CL7	2026	1,845,000	4.500	4.530	575896CX1
2016	1,225,000	4.000	3.990	575896CM5	2027	1,925,000	4.500	4.540	575896CY9
2017	1,275,000	4.000	4.040	575896CN3	2028	2,015,000	4.500	4.550	575896CZ6
2018	1,325,000	4.000	4.090	575896CP8					

$9,005,000 4.500% Term Bonds due July 1, 2032 Yield 4.610%; CUSIP[*]: 575896DA0
$13,735,000 4.500% Term Bonds due July 1, 2037 Yield 4.640%; CUSIP[*]: 575896DB8

$32,125,000
Revenue Refunding Bonds, Series 2007-C (AMT)

Maturity (July 1)	Amount	Interest Rate	Yield	CUSIP[*]	Maturity (July 1)	Amount	Interest Rate	Yield	CUSIP[*]
2009	$ 20,000	3.800%	3.810%	575896DC6	2014	$ 20,000	4.000%	4.090%	575896DK8
2010	25,000	3.800	3.900	575896DD4	2014	1,415,000	5.000	4.090	575896DL6
2011	1,255,000	4.000	3.940	575896DE2	2015	1,510,000	5.000	4.140	575896DM4
2012	60,000	4.000	3.990	575896DF9	2016	100,000	4.125	4.170	575896DN2
2012	1,250,000	5.000	3.990	575896DG7	2016	1,485,000	5.000	4.170	575896DP7
2013	400,000	4.000	4.040	575896DH5	2017	1,660,000	5.000	4.230	575896DQ5
2013	970,000	5.000	4.040	575896DJ1					

$9,640,000 5.000% Term Bonds due July 1, 2022[†] Yield 4.430%; CUSIP[*]: 575896DR3
$12,315,000 5.000% Term Bonds due July 1, 2027[†] Yield 4.510%; CUSIP[*]: 575896DS1

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[*] Copyright 2007, American Bankers Association. CUSIP data herein is provided by Standards & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers may change as a result of events in the secondary market.

[†] Priced to call at par on July 1, 2017.

No dealer, broker, salesperson or other person has been authorized by the Authority or any of its agents or the Underwriters to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2007 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been furnished by the Authority, the Bond Insurer and The Depository Trust Company and includes information from other sources which are believed to be reliable but, as to information from sources other than the Authority, is not to be construed as a representation of the Authority. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement contains forecasts, projections and estimates that are based on current expectations. In light of the important factors that may materially affect the financial condition of the Authority and the aviation industry generally and other economic and financial matters, the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the Authority or the Underwriters that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2007 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Other than with respect to information concerning Financial Security Assurance Inc. ("*Financial Security*") contained under the caption "BOND INSURANCE" and in APPENDIX G – Form of Municipal Bond Insurance Policy herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the 2007 Bonds; or (iii) the tax exempt status of the interest on the 2007 Bonds.

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John F. Monahan, Jr., *Vice Chairman*
Lois J. Catanzaro
Paul D. Foster
Ranch C. Kimball
Paul J. McNally
Frederic Mulligan

Executive/Senior Staff

Thomas J. Kinton, Jr., *Chief Executive Officer and Executive Director*
George K. Hertz, *Chief of Staff*
John P. Pranckevicius, *Director of Administration & Finance/Secretary-Treasurer*
Michael G. Ellis, *Comptroller*
Edward C. Freni, *Director of Aviation*
Michael A. Leone, *Port Director*
David S. Mackey, *Chief Legal Counsel*
Brian R. McMorrow, *Deputy Director of Administration & Finance*
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Lowell L. Richards, III, *Chief Development Officer*
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Independent Auditors
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Boston, Massachusetts

OFFICIAL STATEMENT

of the

MASSACHUSETTS PORT AUTHORITY

Relating to its

$51,465,000 Revenue Bonds, Series 2007-A (Non-AMT)
$32,125,000 Revenue Refunding Bonds, Series 2007-C (AMT)

INTRODUCTION

General

This Official Statement of the Massachusetts Port Authority (the "*Authority*") sets forth certain information concerning the Authority and its $51,465,000 Revenue Bonds, Series 2007-A (the "*2007-A Bonds*") and its $32,125,000 Revenue Refunding Bonds, Series 2007-C (the "*2007-C Bonds*" and collectively with the 2007-A Bonds, the "*2007 Bonds*").

The Authority

The Authority, created pursuant to Chapter 465 of the Massachusetts Acts of 1956 (as amended to date, the "*Enabling Act*"), is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the "*Commonwealth*"). The Authority owns, operates and manages the following three Projects: the "Airport Properties," consisting of Boston-Logan International Airport (the "*Airport*" or "*Logan Airport*") and Laurence G. Hanscom Field ("*Hanscom Field*"); the Maurice J. Tobin Memorial Bridge (the "*Bridge*"); and the "*Port Properties*," consisting of certain facilities in the Port of Boston (the "*Port*") and other properties. See "AIRPORT PROPERTIES," "TOBIN MEMORIAL BRIDGE" and "PORT PROPERTIES." In 2000, the Authority also assumed operating responsibility for the Worcester Regional Airport pursuant to an operating agreement among the Authority, the City of Worcester, Massachusetts, and the Worcester Airport Commission.

The 2007 Bonds

The 2007 Bonds are to be issued under and pursuant to the Enabling Act, a trust agreement by and between the Authority and U.S. Bank National Association, as trustee (the "*Trustee*"), dated as of August 1, 1978, as amended and supplemented (the "*1978 Trust Agreement*"), and a resolution of the Authority pertaining to the issuance of the 2007 Bonds (the "*2007 Bond Resolution*") adopted by the Authority on May 17, 2007. The 2007 Bonds are being issued to finance the costs of certain construction projects and Additional Improvements at the Airport and to refund certain previously issued Bonds (collectively, the "*Refunded Bonds*"). See "CAPITAL PROGRAM – Funding Sources" and "PLAN OF FINANCE."

The 2007 Bonds, the outstanding Bonds that have been previously issued by the Authority under the 1978 Trust Agreement on a parity therewith, and any additional parity Bonds that may be issued hereafter under the 1978 Trust Agreement are collectively referred to herein as the "*Bonds*." For a description of the outstanding Bonds of the Authority and the pledge of Revenues of the Authority under the 1978 Trust Agreement, see "SECURITY FOR THE 2007 BONDS." In addition, scheduled payment of principal of and interest on the 2007 Bonds when due will be guaranteed under an insurance policy (the "*Bond Insurance Policy*" or "*Policy*") to be issued concurrently with the delivery of the 2007 Bonds by Financial Security Assurance Inc. (the "*Bond Insurer*" or "*Financial Security*"). See "BOND INSURANCE" and APPENDIX G – Form of Municipal Bond Insurance Policy.

Contemporaneously with the issuance of the 2007 Bonds, the Authority expects to issue its $48,480,000 PFC Revenue Bonds, Series 2007-B and its $65,130,000 PFC Revenue Refunding Bonds, Series 2007-D (collectively, the "*2007 PFC Bonds*") pursuant to a PFC Revenue Bond Trust Agreement (the "*PFC Trust Agreement*") by and between the Authority and The Bank of New York, as trustee (the "*PFC Trustee*"), dated as of May 6, 1999, and a Second Supplemental Agreement by and between the Authority and the PFC Trustee dated as of May 17, 2007. See "OTHER OBLIGATIONS – PFC Revenue Bonds."

Additional Information

This Official Statement includes a description of the Authority, its facilities and certain financial and operational factors relating to the Authority, and a description of the 2007 Bonds and the security therefor. Except where noted, all information presented in this Official Statement has been provided by the Authority. The following appendices are included as part of this Official Statement: APPENDIX A – Financial Statements of the Authority for the fiscal year ended June 30, 2006 and comparative information for the fiscal year ended June 30, 2005, with a report thereon by PricewaterhouseCoopers LLP; APPENDIX B – Boston-Logan International Airport Market Analysis (the "*Airport Market Analysis*") of Simat, Helliesen & Eichner, Inc. ("*SH&E*") dated May 17, 2007; APPENDIX C – Review of Airport Net Revenues Forecasts of Jacobs Consultancy, Inc. ("*Jacobs Consultancy*") dated May 17, 2007; APPENDIX D – Summary of Certain Provisions of the 1978 Trust Agreement; APPENDIX E – Form of Continuing Disclosure Agreement; and APPENDIX F – Form of Opinion of Bond Counsel; and APPENDIX G – Form of Municipal Bond Insurance Policy. APPENDICES D and F have been prepared by Ropes & Gray LLP, Bond Counsel to the Authority. APPENDIX E has been prepared by Edwards Angell Palmer & Dodge LLP, Disclosure Counsel to the Authority. APPENDIX G has been provided by the Bond Insurer.

All references in this Official Statement to the 1978 Trust Agreement, the 2007 Bond Resolution, the 2007 Bonds, the Continuing Disclosure Agreement and all other agreements, statutes and instruments are qualified by reference to the complete document. Copies of the 1978 Trust Agreement and the 2007 Bond Resolution are available for examination at the offices of the Authority and the Trustee.

The Authority's principal office is located at One Harborside Drive, Suite 200S, East Boston, Massachusetts 02128-2909. Its telephone number is (617) 568-5000. Copies of certain documents, including the Authority's Comprehensive Annual Financial Report for fiscal year 2006, which has been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association, are available electronically at the investors' page of the Authority's website at http://www.massport.com/about/about_inves.html. However, no information on the Authority's website is a part of or incorporated into this Official Statement.

THE 2007 BONDS

General Provisions Regarding the 2007 Bonds

The 2007 Bonds will be issued as fully registered bonds in the aggregate principal amount as set forth on page (i) hereof, will be dated the date of initial delivery and will bear interest from that date to their respective maturities as set forth on page (i) hereof, subject to mandatory sinking fund and optional redemption prior to maturity as described below. Ownership interests in the 2007 Bonds will be available in denominations of $5,000 and integral multiples thereof. Interest on the 2007 Bonds will be payable on January 1, 2008 and on each July 1 and January 1 thereafter.

So long as Cede & Co. is the registered owner of the 2007 Bonds, all payments of principal, premium, if any, and interest on the 2007 Bonds are payable by wire transfer by the Trustee to Cede & Co., as nominee for DTC, which will, in turn, remit such amounts to the DTC Participants for subsequent disposition to Beneficial Owners. See "Book-Entry Only Method" below.

Scheduled payments of principal of and interest on the 2007 Bonds when due will be guaranteed under the Bond Insurance Policy to be issued by the Bond Insurer concurrently with the delivery of the 2007 Bonds. See "BOND INSURANCE."

Redemption

Sinking Fund Installments. The 2007-A Bonds maturing on July 1, 2032 and July 1, 2037 (collectively, the "*2007-A Term Bonds*") and the 2007-C Bonds maturing on July 1, 2022 and July 1, 2027 (collectively, the "*2007-C Term Bonds*") will be subject to sinking fund installments on the dates and in the amounts set forth below, which may be satisfied (i) by purchase and immediate subsequent cancellation by May 15 in each year at not more than 100% (unless another price is set by the Authority) of the principal amount, or (ii) by redemption on July 1 in each year by lot at 100% of the principal amount to be redeemed, in each case together with accrued interest to the purchase or redemption date.

Sinking Fund Installments
2007-A Term Bonds

2032 Term Bond		2037 Term Bond	
Year	Principal Amount	Year	Principal Amount
2029	$2,105,000	2033	$2,510,000
2030	2,200,000	2034	2,625,000
2031	2,300,000	2035	2,740,000
2032	2,400,000†	2036	2,865,000
		2037	2,995,000†

† Final Maturity

Sinking Fund Installments
2007-C Term Bonds

2022 Term Bond		2027 Term Bond	
Year	Principal Amount	Year	Principal Amount
2018	$1,745,000	2023	$2,230,000
2019	1,830,000	2024	2,340,000
2020	1,925,000	2025	2,455,000
2021	2,020,000	2026	2,580,000
2022	2,120,000†	2027	2,710,000†

† Final Maturity

Optional Redemption. The 2007 Bonds maturing on or prior to July 1, 2016 will not be subject to optional redemption prior to their respective maturity dates. The 2007 Bonds maturing on or after July 1, 2017 will be redeemable at the option of the Authority, in the order of maturity or sinking fund installments as directed by the Authority, on or after July 1, 2017, in whole or in part on any date, by lot within any single maturity or sinking fund installment, at 100% of the principal amount to be redeemed, together with accrued interest to the purchase or redemption date.

Selection of 2007 Bonds to Be Redeemed. If fewer than all the 2007 Bonds of any maturity or sinking fund installment of a Series are to be redeemed, the Trustee will select the 2007 Bonds to be redeemed by lot; provided, however, that so long as DTC or its nominee is the Bondowner, the particular portions of the 2007 Bonds to be redeemed within a maturity or sinking fund installment shall be selected by DTC in such manner as DTC may determine. The Trustee will make the selection from 2007 Bonds not previously called for redemption. For this purpose, the Trustee will consider each 2007 Bond in a denomination larger than the minimum Authorized Denomination permitted by the 2007 Bond Resolution at the time to be separate 2007 Bonds each in the minimum Authorized Denomination.

Notice of Redemption. During the period that DTC or DTC's partnership nominee is the registered owner of the 2007 Bonds, the Trustee shall not be responsible for mailing notices of redemption to the Beneficial Owners (as defined herein) of the 2007 Bonds. See "Book-Entry Only Method" below. Not less than 30 nor more than 60 days before any redemption date, notice of the redemption will be mailed to the holders of the 2007 Bonds (DTC or DTC's partnership nominee, as long as the 2007 Bonds are so registered) to be redeemed in whole or in part at their address as shown on the registration books of the Trustee. Failure to mail any notice of redemption, however, will not affect the validity of the redemption. If at the time of notice of any optional redemption of 2007 Bonds moneys sufficient to redeem all of such Bonds shall not have been deposited or set aside as provided in the 1978 Trust Agreement, then the notice of redemption may state that it is conditional on the deposit of sufficient moneys by not later than one business day prior to the redemption date, and if the deposit is not timely made the notice shall be of no effect. The Trustee may make other arrangements with respect to the manner of giving notices of redemption to Bondholders of Record or Beneficial Owners of the 2007 Bonds, as provided in the 2007 Bond Resolution.

Book-Entry Only Method

The Depository Trust Company ("*DTC*"), New York, New York, will act as securities depository for the 2007 Bonds. The 2007 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of each Series of the 2007 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of 2007 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2007 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2007 Bond ("*Beneficial Owner*") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2007 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2007 Bonds, except in the event that use of the book-entry system for the 2007 Bonds is discontinued.

To facilitate subsequent transfers, all 2007 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2007 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2007 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2007 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2007 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2007 Bonds, such as redemptions, defaults and proposed amendments to the security documents. For example, Beneficial Owners of 2007 Bonds may wish to ascertain that the nominee holding the 2007 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2007 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2007 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2007 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the 2007 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2007 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2007 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2007 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the 2007 Bonds as nominee of DTC, references herein to the holders or registered owners of the 2007 Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the 2007 Bonds.

Neither of the Authority or the Trustee will have any responsibility or obligation to the Participants of DTC or the persons for whom they act as nominees with respect to (i) the accuracy of any records maintained by DTC or by any Participant of DTC, (ii) payments or the providing of notice to the Direct Participants, the Indirect Participants or the Beneficial Owners, (iii) the selection by DTC or by any Participant of DTC of any Beneficial Owner to receive payment in the event of a partial redemption of the 2007 Bonds or (iv) any other action taken by DTC or its partnership nominee as owner of the 2007 Bonds.

Transfer of 2007 Bonds

So long as Cede & Co., as nominee for DTC (or other nominee of DTC), is the Bondholder of record of the 2007 Bonds, beneficial ownership interests in the 2007 Bonds may be transferred only through a Direct Participant or Indirect Participant and recorded on the book-entry system operated by DTC. In the event the book-entry-only system is discontinued, 2007 Bond certificates will be delivered to the Beneficial Owners as described in the 2007 Bond Resolution. Thereafter, the 2007 Bonds, upon surrender thereof at the principal office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the holder thereof or such holder's duly authorized attorney, may be exchanged for an equal aggregate principal amount of 2007 Bonds of the same series and maturity and of any Authorized Denominations.

In all cases in which the privilege of exchanging or transferring 2007 Bonds is exercised, the Authority shall execute and the Trustee shall authenticate and deliver the 2007 Bonds in accordance with the provisions of the 1978 Trust Agreement. For every such exchange or transfer of 2007 Bonds, the Authority or the Trustee may make a charge sufficient to reimburse it

for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer but may impose no other charge therefor. Neither the Authority nor the Trustee shall be required to make any such exchange or transfer of 2007 Bonds during the 15 days next preceding an Interest Payment Date or, in the case of any proposed redemption, during the 15 days next preceding the first publication or mailing of notice of redemption.

BOND INSURANCE

The following information has been furnished by Financial Security for use in this Official Statement. Reference is made to APPENDIX G for a specimen of the Municipal Bond Insurance Policy.

Bond Insurance Policy

Concurrently with the issuance of the 2007 Bonds, Financial Security will issue its Bond Insurance Policy for the 2007 Bonds. The Policy guarantees the scheduled payment of principal of and interest on the 2007 Bonds when due as set forth in the form of the Policy included in APPENDIX G.

The Policy is not covered by an insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("*Holdings*"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At March 31, 2007, Financial Security's combined policyholders' surplus and contingency reserves were approximately $2,601,527,000 and its total net unearned premium reserve was approximately $2,089,989,000 in accordance with statutory accounting principles. At March 31, 2007, Financial Security's consolidated shareholder's equity was approximately $2,753,483,000 and its total net unearned premium reserve was approximately $1,649,524,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the 2007 Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the 2007 Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the 2007 Bonds or the advisability of investing in the 2007 Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Authority the information presented under this caption for inclusion in the Official Statement.

SECURITY FOR THE 2007 BONDS

General

The principal of and premium, if any, and interest on the 2007 Bonds and each of the 1997 Bonds, the 1998 Bonds, the 1999 Bonds, the 2003 Bonds and the 2005 Bonds (each as described below), and any additional Bonds that may be issued hereafter under the 1978 Trust Agreement, are payable from, and secured by a pledge of, the Authority's Revenues, which include all tolls, rates, fees, rentals and other charges from its Projects (excluding only passenger facility charges ("*PFCs*") assessed by the Authority on enplaning passengers at the Airport, the use of which is restricted by federal law) and certain investment income and other revenues, all as more fully described in APPENDIX D – Summary of Certain Provisions of the 1978 Trust Agreement. See "SELECTED FINANCIAL DATA" for historical amounts of Revenues. All of the Bonds are also secured by a lien and charge on all funds and accounts created under the 1978 Trust Agreement (other than certain Rebate Funds created by resolutions of the Authority), as more fully described herein and in APPENDIX D – Summary of Certain Provisions of the 1978 Trust Agreement.

Before giving effect to the issuance of the 2007 Bonds, the Authority has Outstanding under the 1978 Trust Agreement 16 Series of Bonds in the aggregate principal amount of $1,232,845,000, consisting of the Series listed in the following table:

BONDS OUTSTANDING UNDER THE 1978 TRUST AGREEMENT BEFORE GIVING EFFECT TO THE ISSUANCE OF THE 2007 BONDS

Series	Issued	Amount Outstanding as of June 1, 2007
Revenue Bonds, Series 1997-A (Non-AMT)	August 1997	$ 6,880,000
Revenue Bonds, Series 1997-B (AMT)*	August 1997	37,090,000
Revenue Refunding Bonds, Series 1997-C (Non-AMT)(1)	August 1997	15,585,000
Revenue Refunding Bonds, Series 1998-A (Non-AMT)(2)	February 1998	104,660,000
Revenue Refunding Bonds, Series 1998-B (AMT)(2)	February 1998	33,975,000
Taxable Revenue Refunding Bonds, Series 1998-C(2)	February 1998	35,955,000
Revenue Bonds, Series 1998-D (Non-AMT)	August 1998	39,825,000
Revenue Bonds, Series 1998-E (AMT)	August 1998	75,195,000
Revenue Bonds, Series 1999-C (Non-AMT)	November 1999	10,360,000
Revenue Bonds, Series 1999-D (AMT)	November 1999	66,860,000
Revenue Bonds, Series 2003-A (Non-AMT)	May 2003	212,590,000
Revenue Bonds, Series 2003-B (AMT) (Auction Rate Securities)(3)	May 2003	72,775,000
Revenue Refunding Bonds, Series 2003-C (Non-AMT)(3)	May 2003	69,790,000
Revenue Bonds, Series 2005-A (Non-AMT)	May 2005	190,165,000
Revenue Bonds, Series 2005-B (AMT) (Auction Rate Securities)	May 2005	29,250,000
Revenue Refunding Bonds, Series 2005-C (Non-AMT)(4)	May 2005	231,890,000
Total		$1,232,845,000

* A portion of the 1997-B Bonds will be refunded with the proceeds of the 2007-C Bonds. See "PLAN OF FINANCE" herein.

(1) The proceeds of the 1997-C Bonds were applied to advance refund a portion of the Authority's Revenue Bonds, Series 1990-A.

(2) The proceeds of the 1998 Refunding Bonds were applied to currently refund a portion of the Bonds of the Authority issued in 1978 and 1995 and to advance refund portions of the 1990 Bonds and 1992 Bonds.

(3) A portion of the proceeds of the 2003-B Bonds was applied to currently refund the Authority's Revenue Bonds, Series 1992-A. The proceeds of the 2003-C Bonds were applied to currently refund the Authority's Revenue Bonds, Series 1992-B, 1993-A and 1993-B.

(4) The proceeds of the 2005-C Bonds were applied to advance refund a portion of the Authority's Revenue Bonds, Series 1997-A, 1998-D and 1999-C.

The 1997 Bonds, the 1998 Bonds, the 1999 Bonds, the 2003 Bonds and the 2005 Bonds are the only Bonds currently outstanding under the 1978 Trust Agreement. For a description of the Authority's subordinated obligations, also issued under

the 1978 Trust Agreement but not on parity with the Bonds, see "OTHER OBLIGATIONS – Subordinated Revenue Bonds." For a description of other obligations of the Authority not issued on a parity with the Bonds, see "OTHER OBLIGATIONS."

The Authority has no power to levy any taxes or pledge the credit or create any debt of the Commonwealth or any political subdivision thereof. The Authority's Bonds and other obligations are payable only out of Revenues of the Authority as described herein or the proceeds of Bonds subsequently issued, and are not debts of the Commonwealth or of any such subdivision, nor are they guaranteed by any of them. Under the Enabling Act and the 1978 Trust Agreement, the Authority does not have the power to mortgage the Airport Properties, the Bridge or the Port Properties, or any additional revenue-producing facilities hereafter acquired or constructed by the Authority or extensions, enlargements and improvements of the foregoing. Under its Enabling Act, the Authority has the power to acquire improvements to its Projects and, in certain instances, to sell property included in the Projects. Acquisitions of new facilities unrelated to the Projects and sales of all or substantially all of any existing Project would require authorizing legislation.

Flow of Funds

The Authority's pledge of its Revenues to secure the Bonds is subject to the provisions of the 1978 Trust Agreement regarding the application of Revenues. The pledge of Revenues securing the Bonds is also subject to the prior claim of the holders of certain bonds that were refunded from the proceeds of bonds issued by the Authority in 1978 and the escrow agent therefor, in the event of any deficiency in the direct obligations of the United States of America deposited in escrow to provide for the payment of such refunded bonds.

A brief description of the Revenues funds flow is presented below. For a more complete summary, see APPENDIX D – Summary of Certain Provisions of the 1978 Trust Agreement – "Application of Revenues."

The 1978 Trust Agreement provides that all Revenues are deposited initially in the Revenue Fund and are then transferred to the credit of the Operating Fund as soon and as often as practicable. The Authority shall pay when due all Operating Expenses from the Operating Fund and, once each month, shall transfer from the Operating Fund amounts, if any, to be deposited to its pension, post-retirement health benefits and self-insurance accounts. Any amounts deposited in the pension or post-retirement health benefit accounts will, upon the occurrence of an event of default under the 1978 Trust Agreement, first be applied to present and accrued pension benefits and post-retirement health benefits of the Authority's employees. See "GENERAL OPERATIONAL FACTORS – Financial Considerations – Authority Pension Funding" and APPENDIX D – Summary of Certain Provisions of the 1978 Trust Agreement – "Pledge Effected by the 1978 Trust Agreement."

The Authority retains in the Operating Fund as working capital such amounts as the Authority may determine necessary, provided that the balance therein shall not exceed 15% of the annual Operating Expenses established in the Authority's current annual budget. The balance of the Operating Fund is transferred to the Trustee and applied as follows:

(a) First, to deposit to the credit of the Bond Service Account of the Interest and Sinking Fund, the amount required to make the balance of the Bond Service Account equal to the sum of the interest accrued and to accrue until the first day of the next month on all outstanding Bonds and the principal accrued and to accrue until the first day of the ensuing month of all serial Bonds, if any, which will become payable within the next twelve (12) months.

(b) Second, to deposit to the credit of the Redemption Account of the Interest and Sinking Fund, the amount, if any, required to make the amounts deposited in the Redemption Account for the current fiscal year equal to the portion of the Amortization Requirement, if any, for such fiscal year for the outstanding term Bonds of each Series, accrued and to accrue until the first day of the next month.

(c) Third, to deposit to the credit of the Reserve Account of the Interest and Sinking Fund (i) an amount, if any, equal to one-sixtieth (1/60th) of the difference, if any, between (x) the maximum annual Principal and Interest Requirements for all Bonds then outstanding at the time of issuance of each Series of additional Bonds, less (y) the amount deposited into the Reserve Account as of the issuance of such Series of Bonds until the balance in the Reserve Account is equal to the maximum annual Principal and Interest Requirements for all outstanding Bonds, (ii) any amount which may have been withdrawn from the Reserve Account for paying interest, maturing principal or

meeting Amortization Requirements or deposits to any Term Bond Investment Account and not theretofore replenished and (iii) any outstanding deficiency in deposits to the Reserve Account.

(d) Fourth, to deposit to the credit of the Maintenance Reserve Fund, the amount required to make the deposit in the Fund during such month equal to one-twelfth (1/12) of one percent (1%) of the Replacement Cost of all Projects of the Authority as determined by the Consulting Engineer for the then-current fiscal year, or a greater amount as may have been specified by the Authority in its annual budget for the fiscal year (not to exceed in any fiscal year five percent (5%) of the Replacement Cost of all Projects).

(e) Fifth, to deposit to the credit of the Payment in Lieu of Taxes Fund, the amount, if any, required to make the balance of the Payment in Lieu of Taxes Fund equal to the amount that should be on deposit therein, assuming that the amounts payable on the respective next following payment dates pursuant to the in-lieu-of tax agreements referred to in the 1978 Trust Agreement were paid in equal monthly installments from each respective preceding payment date.

(f) Sixth, to deposit to the credit of the Capital Budget Fund, the amount, if any, required to make the balance of the Capital Budget Fund equal to the sum of the remaining portion of the Capital Budget for the then-current fiscal year budgeted to be paid from the Capital Budget Fund plus all amounts in the Capital Budget Fund obligated with respect to prior fiscal years but not yet expended; provided, that the Authority by resolution may increase or reduce the amount otherwise required to be deposited in the Capital Budget Fund.

(g) Seventh, to the Authority for deposit to the credit of the Improvement and Extension Fund any amounts remaining in the Operating Fund after compliance with the above provisions. The 1978 Trust Agreement provides that moneys held in the Improvement and Extension Fund may be used for any lawful purpose of the Authority.

Covenants as to Fees and Charges

The Authority covenants under the 1978 Trust Agreement to fix and revise as necessary the tolls, rates, fees, rentals and other charges for use of its Projects. The 1978 Trust Agreement requires that in each fiscal year Revenues be at least equal to the greater of (i) Operating Expenses plus 125% of debt service requirements for such year on all outstanding Bonds, and (ii) the sum of (A) Operating Expenses and debt service and reserve requirements on all outstanding Bonds, plus (B) amounts, if any, required to be deposited to the Maintenance Reserve Fund, the Payment in Lieu of Taxes Fund and the Capital Budget Fund plus (C) amounts required to be deposited to the credit of the Improvement and Extension Fund pursuant to the Twelfth Supplemental Agreement between the Authority and the Trustee, made pursuant to the 1978 Trust Agreement. If in any year Revenues are less than the amount required, the Authority is required to cause recognized experts to recommend revised schedules of tolls and other charges and, if the Authority shall comply with all such recommendations, the failure of Revenues to equal the amount specified will not, of itself, constitute a default under the 1978 Trust Agreement. See APPENDIX D – Summary of Certain Provisions of the 1978 Trust Agreement – "Covenants as to Fees and Charges."

Reserve Account

The 1978 Trust Agreement establishes a Reserve Account within the Interest and Sinking Fund that secures all Bonds on a parity basis. Such Reserve Account shall be used to pay debt service on the Bonds secured thereby to the extent of deficiencies in the applicable Bond Service Account. As a result of the deposits previously made to the Reserve Account upon the issuance of Bonds under the 1978 Trust Agreement, plus subsequent monthly deposits, the balance in such Account as of December 31, 2006 was $107.5 million. Upon issuance of any additional Bonds (other than certain refunding Bonds), the 1978 Trust Agreement requires that there be deposited to the Reserve Account an amount at least equal to one-half of the difference between (a) the amount of the increase in the maximum annual debt service requirement on such Bonds and all then-outstanding Bonds and (b) the amount, if any, in the Reserve Account in excess of the maximum annual debt service requirement on all then-outstanding Bonds. A portion of the Reserve Account requirement applicable to the 2007 Bonds will be funded with proceeds of the 2007 Bonds. At the time of issuance of the 2007 Bonds, the Reserve Account is expected to be fully funded with respect to all outstanding Bonds (including the 2007 Bonds and after giving effect to the refunding of the Refunded Bonds) and will secure all outstanding Bonds on a parity basis. See APPENDIX D – Summary of Certain Provisions of the 1978 Trust Agreement – "Application of Revenues."

Permitted Investments

Moneys held for the credit of the funds and accounts established under the 1978 Trust Agreement may, with certain exceptions, be invested only in "Investment Securities" as defined in the 1978 Trust Agreement. See APPENDIX D – Summary of Certain Provisions of the 1978 Trust Agreement – "Certain Definitions." The exceptions are that moneys held for the credit of any special separate pension account in the Operating Fund may be invested in such manner as provided in the resolution of the Authority establishing such account, and that moneys held for the credit of certain other accounts may be invested solely in Government Obligations. See APPENDIX D – Summary of Certain Provisions of the 1978 Trust Agreement – "Investments in Funds and Accounts." For a description of the Authority's investment policy, see "GENERAL OPERATIONAL FACTORS – Investment Policy."

Additional Bonds

Under the 1978 Trust Agreement the Authority may, on the fulfillment of certain conditions, issue additional Bonds. The Enabling Act does not limit the amount of additional Bonds that may be issued by the Authority. Bonds may be issued under provisions of the 1978 Trust Agreement to finance, among other things, the cost of acquiring and constructing Additional Facilities and Additional Improvements and to refund outstanding Bonds. These provisions of the 1978 Trust Agreement permit the issuance of a series of additional Bonds if, among other conditions, the Authority complies with one or more tests based on historical or projected Net Revenues and debt service requirements. See APPENDIX D – Summary of Certain Provisions of the 1978 Trust Agreement – "Issuance of Additional Bonds."

In connection with the issuance of the 2007 Bonds, the following test will be applicable: that the Net Revenues of the Authority (the excess of Revenues over Operating Expenses during the applicable period) for any 12 consecutive months of the last 18 months have been at least 125% of the maximum annual Principal and Interest Requirements on all outstanding Bonds, after giving effect to the issuance of the 2007 Bonds (and any subsequent additional Bonds estimated to be issued under the 1978 Trust Agreement to complete Additional Improvements or Additional Facilities partially financed by Bonds then outstanding). For the purpose of this calculation, annual Principal and Interest Requirements on outstanding Bonds means, for any fiscal year of the Authority, interest accrued on such Bonds during such fiscal year, excluding interest for such period paid or to be paid from the Construction Fund, and maturing principal and mandatory amortization requirements due and payable on the July 1 immediately following such fiscal year. In the case of Bonds which bear interest at a variable rate, the interest component of maximum annual Principal and Interest Requirements is computed at the rate estimated by a nationally known investment banking firm selected by the Authority as the rate at which such Bonds would bear interest if issued at par with a fixed rate of interest and the same maturity.

For the 12 months ended December 31, 2006, coverage for purposes of the additional Bonds test described in the preceding paragraph was 209%, based upon Net Revenues for such period of $231,334,000 and maximum annual Principal and Interest Requirements of approximately $110,648,395, determined as described above, after giving effect to the issuance of the 2007 Bonds and the refunding of the Refunded Bonds.

Passenger Facility Charges

Under the 1978 Trust Agreement, PFCs assessed by the Authority on enplaning passengers at the Airport have been excluded from Revenues at the election of the Authority, and the proceeds of PFCs are collected, held and expended outside the Funds and Accounts established under the 1978 Trust Agreement, and are not security for the Bonds. See "CAPITAL PROGRAM – Funding Sources." For a description of certain revenue bonds issued by the Authority and secured by PFCs (collectively, the "*PFC Bonds*"), see "OTHER OBLIGATIONS – PFC Revenue Bonds." The PFC Bonds are not issued under or secured by the 1978 Trust Agreement.

Other Obligations and Commitments

The Authority is permitted by the 1978 Trust Agreement to incur borrowings or issue other obligations that are generally subordinate to the rights of holders of the Bonds and are payable solely from moneys in the Improvement and Extension Fund, proceeds of borrowings or obligations subsequently incurred or issued and, in certain circumstances, Bonds subsequently issued. For a description of such borrowings, see "OTHER OBLIGATIONS." The Authority has also issued special facilities revenue bonds for various capital projects on a non-recourse basis. The principal of and interest on the special

facilities revenue bonds issued by the Authority are special obligations of the Authority, payable solely from the sources provided; none of such special facilities revenue bonds is secured by the Revenues of the Authority. For a description of these bonds, see "OTHER OBLIGATIONS – Special Facilities Revenue Bonds."

Additional Facilities

The Authority may acquire or construct revenue-producing facilities (in addition to Additional Improvements to the Airport Properties, the Bridge or the Port Properties) that serve a public purpose as may hereafter be authorized by the Legislature of the Commonwealth. Under the 1978 Trust Agreement, the Authority may not construct, acquire or operate any other building, structure or other facility financed other than by additional Bonds, unless the Consulting Engineer files a statement to the effect that in their opinion the operation of such facility will not materially adversely affect the Net Revenues or impair the operating efficiency of the Projects taken as a whole. Such a statement was delivered by the Consulting Engineer in connection with the issuance of each series of non-recourse bonds issued by the Authority. See "Other Obligations and Commitments" above and "OTHER OBLIGATIONS."

Separately, the 1978 Trust Agreement permits the Authority to contract with any municipality or political subdivision of the Commonwealth, or with any public agency or instrumentality thereof or of the United States of America or the Commonwealth, to provide for the construction, operation and maintenance and/or administration of any facility or improvement, whether or not connected with or made a part of the Airport Properties, the Bridge or the Port Properties, if permitted by law. The Authority may expend or contribute moneys for such purpose from the Improvement and Extension Fund, but only, in the case of construction, if the construction of such facility or improvement (i) will result in increasing the average annual Net Revenues of the Authority, during the period of sixty (60) months immediately following the placing of such facility or improvement in operation, by an amount not less than 5% of the amount of moneys to be so expended or contributed by the Authority, and (ii) will not impair the operating efficiency or materially adversely affect the Revenues of any Project.

Modifications of the 1978 Trust Agreement

On several occasions commencing in 1988, the Authority has approved modifications to the 1978 Trust Agreement, such modifications to take effect if and when approved by the holders of the requisite percentages of the outstanding Bonds. The requisite percentage, in the case of most modifications, is 51% of the outstanding Bonds or, if fewer than all Series of Bonds are affected, 51% of the outstanding Bonds of each affected Series. See APPENDIX D – Summary of Certain Provisions of the 1978 Trust Agreement – "Modifications of the 1978 Trust Agreement." A number of modifications of the 1978 Trust Agreement have taken effect. The descriptions of provisions of the 1978 Trust Agreement contained in this Official Statement, including APPENDIX D – Summary of Certain Provisions of the 1978 Trust Agreement, are inclusive of all modifications and amendments that have taken effect to date. No proposed but unapproved modifications of the 1978 Trust Agreement are pending.

By their acceptance of the 2007 Bonds, the owners thereof agree to all of the terms of the 1978 Trust Agreement as currently in effect.

Rights of the Bond Insurer

Purchasers of 2007 Bonds are advised that the 2007 Bond Resolution provides certain rights to the Bond Insurer, including without limitation that no consent of holders of the 2007 Bonds to any modification or amendment of the 1978 Trust Agreement will take effect without the consent of the Bond Insurer.

By their acceptance of the 2007 Bonds, the owners thereof irrevocably grant to the Bond Insurer the right to give or withhold consent, give notice or take or withhold any other action or remedy available to the owners of the 2007 Bonds under the 1978 Trust Agreement upon the occurrence and during the continuation of an event of default under the 1978 Trust Agreement; provided, that such right shall terminate in the event that the Bond Insurer shall fail to perform its obligations with respect to the 2007 Bonds. Such right shall be exercisable by the Bond Insurer in its discretion, not as agent for any owner of 2007 Bonds and without any obligation or duty to the owners of the 2007 Bonds. Upon the occurrence and continuation of an event of default under the 1978 Trust Agreement with respect to the 2007 Bonds, the Bond Insurer shall have the right to

institute any suit, action or proceeding at law or in equity under the same terms as a holder of 2007 Bonds may institute any action permitted under the 1978 Trust Agreement.

Moreover, the Bond Insurer (so long as it has not defaulted under the Policy) will have the right to give or withhold all consents and directions and give or receive all notices that would be given, withheld or received, as the case may be, by the owners of the 2007 Bonds under the 1978 Trust Agreement; provided, however, that unless the Bond Insurer actually is the beneficial owner of the 2007 Bonds in respect of which a consent is requested, the Bond Insurer shall not have the power to act on behalf of the owners of such 2007 Bonds to consent to amendments, supplements or waivers that would (a) extend the maturity of or time for paying the interest on such 2007 Bonds, (b) reduce the principal amount of, purchase price for or redemption premium or rates of interest payable on such 2007 Bonds or (c) result in a privilege or priority of any Bond over any other Bond.

DEBT SERVICE REQUIREMENTS
(in thousands)

The following table sets forth debt service on the Authority's outstanding Bonds[1] for each fiscal year in which such Bonds will be outstanding, after giving effect to the issuance of the 2007 Bonds and the refunding of Refunded Bonds.

Year Ending July 1	Other Outstanding Fixed Rate Bonds Debt Service[2]	Other Outstanding Variable Rate Bonds Debt Service[3]	2007-A Bonds Debt Service			2007-C Bonds Debt Service			Total Debt Service[4]
			Principal	Interest	Total	Principal	Interest	Total	
2007	$98,556	$6,973	-	-	-	-	-	-	$105,529
2008	97,549	8,067	$ 770	$2,360	$3,130	-	$1,693	$1,693	110,438
2009	97,264	8,373	945	2,185	3,130	$ 20	1,587	1,607	110,375
2010	97,645	8,031	975	2,151	3,126	25	1,587	1,612	110,414
2011	96,378	8,298	1,015	2,116	3,131	1,255	1,586	2,841	110,648
2012	96,389	7,993	1,050	2,078	3,128	1,310	1,536	2,846	110,356
2013	79,261	8,245	1,090	2,039	3,129	1,370	1,471	2,841	93,475
2014	80,157	8,224	1,135	1,995	3,130	1,435	1,406	2,841	94,352
2015	80,205	7,319	1,180	1,950	3,130	1,510	1,335	2,845	93,498
2016	73,837	7,500	1,225	1,903	3,128	1,585	1,259	2,844	87,309
2017	73,942	7,289	1,275	1,854	3,129	1,660	1,181	2,841	87,200
2018	74,060	7,478	1,325	1,803	3,128	1,745	1,098	2,843	87,509
2019	66,623	7,248	1,380	1,750	3,130	1,830	1,011	2,841	79,841
2020	66,611	7,394	1,435	1,693	3,128	1,925	919	2,844	79,977
2021	63,291	7,247	1,495	1,634	3,129	2,020	823	2,843	76,510
2022	63,298	7,346	1,560	1,570	3,130	2,120	722	2,842	76,616
2023	63,308	7,327	1,625	1,504	3,129	2,230	616	2,846	76,610
2024	59,905	5,247	1,695	1,435	3,130	2,340	504	2,844	71,126
2025	59,910	5,338	1,765	1,361	3,126	2,455	387	2,842	71,217
2026	59,929	5,216	1,845	1,284	3,129	2,580	265	2,845	71,118
2027	59,938	5,291	1,925	1,201	3,126	2,710	136	2,846	71,200
2028	51,172	5,228	2,015	1,114	3,129	-	-	-	59,529
2029	40,924	5,258	2,105	1,023	3,128	-	-	-	49,311
2030	26,989	5,227	2,200	929	3,129	-	-	-	35,345
2031	27,007	5,161	2,300	830	3,130	-	-	-	35,298
2032	27,025	5,213	2,400	726	3,126	-	-	-	35,364
2033	27,032	5,325	2,510	618	3,128	-	-	-	35,485
2034	12,497	1,993	2,625	505	3,130	-	-	-	17,620
2035	12,500	1,974	2,740	387	3,127	-	-	-	17,601
2036	-	-	2,865	264	3,129	-	-	-	3,129
2037	-	-	2,995	135	3,130	-	-	-	3,130

(1) Does not include commercial paper or debt service on obligations of the Authority not secured on a parity with the Bonds under the 1978 Trust Agreement, such as subordinated revenue bonds, PFC Bonds and special facilities revenue bonds. For a description of such other obligations, see "OTHER OBLIGATIONS."
(2) The figures shown in this column combine Bond Debt Service for the outstanding 1997 Bonds, 1998 Bonds, 1999 Bonds, 2003 Bonds and 2005 Bonds.
(3) The fiscal year 2007 figure reflects actual auction results through May 1, 2007 including broker/dealer and auction agent fees. The balance of the figures assumes a 5.26% interest rate on the Variable Rate Bonds including Bond coupons and broker/dealer and auction agent fees.
(4) Column totals may not add due to rounding.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the 2007 Bonds are summarized below:

Sources of Funds	
Principal of the 2007-A Bonds	$51,465,000.00
Principal of the 2007-C Bonds	32,125,000.00
Amounts Available under the 1978 Trust Agreement	734,761.78
Plus: Net Original Issue Premium	792,074.75
Total	$85,116,836.53
Use of Funds	
Deposit to Construction Fund	$47,162,000.00
Deposit to Refunding Escrow Fund	33,829,276.38
Deposit to Reserve Account	2,993,130.01
Costs of Issuance (including Bond Insurance Premium)	710,592.24
Underwriters' Discount	421,837.90
Total	$85,116,836.53

PLAN OF FINANCE

The Authority's fiscal year 2007-2011 Capital Program (the "*FY07-FY11 Capital Program*") contemplates the use of proceeds of the 2007-A Bonds, previously issued Bonds, commercial paper, additional Bonds, additional PFC Bonds, special facilities revenue bonds, PFCs, federal grants and certain funds and accounts held under the 1978 Trust Agreement. As described in "CAPITAL PROGRAM," portions of the FY07-FY11 Capital Program have been completed, while others are under construction or are in a design phase. The 2007-A Bonds are being issued to finance a portion of the FY07-FY11 Capital Program.

The 2007-C Bonds are being issued to refund certain of the Authority's Bonds. Proceeds of the 2007-C Bonds will be deposited into the Refunding Escrow Fund established under a Refunding Escrow Agreement (the "*Refunding Escrow Agreement*") to be entered into between the Authority and the Trustee in an amount that, together with certain amounts available under the 1978 Trust Agreement, will provide for the payment of the redemption price of and interest on the Refunded Bonds on the first available optional redemption dates and at the redemption prices set forth below. Upon the funding of the Refunding Escrow Fund and the satisfaction of certain conditions relating thereto specified in the 1978 Trust Agreement, the Refunded Bonds will be legally defeased pursuant to the 1978 Trust Agreement. See APPENDIX D – Summary of Certain Provisions of the 1978 Trust Agreement – "Defeasance." The refunding is contingent upon delivery of the 2007-C Bonds.

Funds deposited in the Refunding Escrow Fund will be applied immediately upon receipt to purchase non-callable direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America ("*Escrow Government Obligations*") and to funding, if needed, a cash deposit in such account. The maturing principal of and interest on the Escrow Government Obligations, plus any initial cash deposit, held under the Refunding Escrow Agreement will be held in the Refunding Escrow Fund and applied solely for the payment of the principal of and redemption premium and accrued interest on the Refunded Bonds. According to the report described in "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein, the Escrow Government Obligations held under the Refunding Escrow Agreement will mature at such times and earn interest in such amounts that, together with any initial cash deposit, will produce sufficient monies to pay the principal of and redemption premium, if any, and accrued interest on the Refunded Bonds to and including their respective redemption dates, each as set forth below. Any amounts remaining in the Refunding Escrow Fund after the payment of the Refunded Bonds shall be remitted to the Authority and applied as the Authority shall direct.

Refunded Bonds

Series	Original Maturity July 1	Amount to be Refunded	Redemption Date	Redemption Price
1997-B	2011	$ 1,230,000	07/09/07	101.0%
1997-B	2012	1,300,000	07/09/07	101.0
1997-B	2013	1,365,000	07/09/07	101.0
1997-B	2014	1,435,000	07/09/07	101.0
1997-B	2015	1,515,000	07/09/07	101.0
1997-B	2016	1,595,000	07/09/07	101.0
1997-B	2017	1,675,000	07/09/07	101.0
1997-B	2022*	9,825,000	07/09/07	101.0
1997-B	2027*	12,780,000	07/09/07	101.0

* Term Bond.

THE AUTHORITY

Powers and Facilities

Under the Enabling Act, the Authority has general power, *inter alia* (a) to issue its revenue bonds and to borrow money in anticipation thereof, (b) to fix, revise, charge and collect tolls, rates, fees, rentals and charges for use of the Projects, (c) to maintain, repair and operate and to extend, enlarge and improve the Projects, and (d) to construct or acquire Additional Facilities within the Commonwealth when authorized by the Legislature of the Commonwealth. The Authority has the power to acquire property by purchase or through the exercise of the right of eminent domain in certain circumstances. The Authority has no taxing power.

The Authority's facilities include the "*Airport Properties*," consisting of the Airport and Hanscom Field; the Bridge; and the "*Port Properties*," consisting of Moran Terminal, Hoosac Pier (site of Constitution Plaza), Mystic Piers 1, 48, 49 and 50 and the Medford Street Terminal, all of which are located in Charlestown; Conley Terminal, the North Jetty and Fargo Street Terminals, the former Army Base (including Black Falcon Cruise Terminal), the Boston Fish Pier, Commonwealth Pier (site of World Trade Center Boston), and a portion of Commonwealth Flats, all of which are located in South Boston; and the East Boston Piers and the Boston Marine Works, both located in East Boston. On January 15, 2000, the Authority also assumed operating responsibility for Worcester Regional Airport pursuant to an operating agreement (the "*Worcester OA*") among the Authority, the City of Worcester, Massachusetts and the Worcester Airport Commission. The Worcester OA was amended in 2004 to extend the term of the agreement through June 30, 2007. The Authority and the City of Worcester are currently engaged in negotiations concerning a new agreement.

Members and Management

The Enabling Act provides that the Authority shall consist of seven Members appointed by the Governor of the Commonwealth. Pursuant to legislation enacted in 2004, effective July 1, 2007, the secretary of transportation of the Commonwealth will serve as a Member of the Authority. Four Members of the Authority constitute a quorum and the affirmative vote of four Members is necessary for any action taken by the Authority. With the exception of the secretary of transportation, the Members are appointed for staggered seven-year terms. Members completing a term in office are eligible for reappointment and remain in office until their successors are appointed, except that any Member appointed to fill a vacancy shall serve only for the unexpired term. The Members of the Authority serve without compensation, although they are reimbursed for expenses they incur in carrying out their duties.

The Chairman of the Authority is currently appointed by the Governor. Pursuant to the legislation referenced above, as of July 1, 2007, the Chairman will be elected annually by the Members. The Members also annually elect a

Vice Chairman and a Secretary-Treasurer (who need not be a Member of the Authority), both of whom serve at the pleasure of the Members. The present Members of the Authority and the expiration dates of their terms are as follows:

Members of the Authority	**Expiration of Term**
John A. Quelch, Chairman Senior Associate Dean, Harvard Business School	2009
John F. Monahan, Jr., Vice Chairman Retired; former CEO of Telephone Workers Credit Union	2007
Lois J. Catanzaro Director of Public Affairs, Clear Channel Outdoor	2008
Paul D. Foster Vice President of Trade, Community and Governmental Relations, Reebok Corporation	2010
Ranch C. Kimball President and Chief Executive Officer, Joslin Diabetes Center	2011
Paul J. McNally Business Manager, Massachusetts Laborers' District Council	2012
Frederic Mulligan President, Cutler Associates, Inc.	2013

The management of the Authority and its operations is carried out by a staff headed by the Chief Executive Officer and Executive Director, who is appointed by and reports directly to the Members of the Authority.

The Authority has three operating Departments – Aviation, Maritime and Bridge – each of which is charged with profit and loss responsibility. The staff members overseeing the operation of the Authority's facilities are charged with balancing financial performance with operational demands, customer service and community impacts, as well as forecasting the implications of any proposed capital programs or operating initiatives, and for the collection of accounts receivable.

The senior staff of the Authority currently includes the following persons, who are each aided by administrative, operating and maintenance personnel:

Thomas J. Kinton, Jr., Chief Executive Officer and Executive Director, was appointed to this position in August 2006, and has overall responsibility for the management of the Authority and its facilities. Mr. Kinton served as the Authority's Acting CEO in July 2006, a position he previously held from November 2001 until April 2002. Mr. Kinton has been employed by the Authority since 1976 and has held the positions of Director of Operations and Manager of Airport Facilities. He was named Director of Aviation in 1993 and was responsible for all activities and operations of Boston Logan International Airport, Hanscom Field and Worcester Regional Airport. Mr. Kinton was named Airport Director of the Year by Airport Revenue News in 2005. He holds a B.S. in Civil Engineering from Merrimack College.

George K. Hertz, Chief of Staff, was appointed in April 2007. Previously he served as the Executive Vice President of the Authority from 2002 through 2006. Prior to joining the Authority, Mr. Hertz had over 20 years of executive level private sector business experience, including serving as Managing Director and Senior Vice President of the Business Services Group of Fidelity Capital. From 1979-82 he was the State Budget Director for the Commonwealth. Mr. Hertz holds both an M.A. in Public Administration and a B.A. from the University of Massachusetts, Amherst.

John P. Pranckevicius, Director of Administration and Finance and Secretary-Treasurer, joined the Authority in May 2007. He oversees the Authority's financial responsibilities including treasury, budgeting, accounting, debt and investment management and administration, and serves as Treasurer-Custodian of the Massachusetts Port Authority Employees' Retirement System. Prior to joining the Authority, he served as the Chief Financial Officer for the City of

Worcester, Massachusetts. Mr. Pranckevicius is licensed in the Commonwealth as a Certified Public Accountant, and holds a B.A. degree and a Masters in Public Administration from the University of Maine and a M.S. in Accountancy from Bentley College.

Michael G. Ellis, Comptroller, joined the Authority in 2006 and is responsible for coordinating all accounting activities throughout the Authority and administering the Authority's internal controls and financial reporting efforts. Prior to joining the Authority, Mr. Ellis had over 15 years of private sector business experience, most recently as the Chief Financial Officer for Eze Castle Software, Inc. Prior to that he was a Director within the Pricewaterhouse Coopers, LLP mergers and acquisition practice group. Mr. Ellis was licensed in the Commonwealth as a Certified Public Accountant, and holds B.A., *cum laude,* degrees in Accounting and Politics & Government from Ohio Wesleyan University.

Edward C. Freni, Director of Aviation, joined the Aviation Division of the Authority in 2000 as the Deputy Director of Aviation Operations at Logan, Hanscom and Worcester airports and was appointed to his current position in 2007. He is responsible for administering, coordinating and managing all airside and landside activities and operations at all three airports. Prior to joining the Authority, Mr. Freni worked for 23 years at American Airlines. He holds a B.S. degree from the University of New Hampshire.

Michael A. Leone, Port Director, joined the Authority in 1993 as Senior Legal Counsel Maritime. Mr. Leone was named Port Director in 1998. Prior to joining the Authority, Mr. Leone served for 22 years with the United States Coast Guard. Mr. Leone is a graduate of the United States Coast Guard Academy and George Washington University School of Law.

David S. Mackey, Chief Legal Counsel, joined the Authority as Chief Legal Counsel in April 2001. Formerly First Assistant United States Attorney and Chief of the Civil Division of the U.S. Attorney's Office for the District of Massachusetts, Mr. Mackey was also a partner at Goodwin, Procter and Hoar. He holds a B.A., *summa cum laude*, from Amherst College and a J.D., *cum laude*, from Harvard Law School.

Brian R. McMorrow, Deputy Director of Administration and Finance, rejoined the Authority in December 1995 and was appointed to his current position in September 1998. He is responsible for business and financial analysis including budget and management reporting. Mr. McMorrow previously worked for the Commonwealth, the Authority and Yankee Atomic Electrical Company in various capital facility, planning and development roles. Mr. McMorrow holds a B.S. degree in Civil Engineering from the University of Massachusetts and a M.S. Degree in Engineering Management from Northeastern University's School of Industrial Engineering.

Mary Jane O'Meara, Director of Tobin Memorial Bridge, joined the Authority in 1988 as Operations Manager of the Bridge and is responsible for the safe and efficient operation and management of the Bridge. She previously was employed by the Massachusetts Bay Transportation Authority, where she worked as Chief Railroad Services Officer and Assistant Project Manager in the Construction Directorate. She holds a B.A. degree from the University of Massachusetts.

Lowell L. Richards, III, Chief Development Officer, joined the Authority in May 1999. Previously, he was Assistant Secretary for Capital Resources and Chief Development Officer in the Executive Office of Administration and Finance of the Commonwealth. Prior to that he was a senior finance officer in Cabot, Cabot & Forbes, a Boston-based commercial real estate development company, and Deputy Mayor for Fiscal Affairs and Collector-Treasurer in the City of Boston. He holds a B.A. from Dartmouth College, a Master of City Planning degree from the Massachusetts Institute of Technology and a J.D. from Harvard Law School.

Houssam H. Sleiman, Director of Capital Programs and Environmental Affairs, joined the Authority in October 1993 and was appointed to his current position in May 2006. He directs the overall management of the Authority's capital investment program, safety program, utilities management, in-house design and environmental permitting and management. He also served as the Authority's Director of Aviation Administration and Development. Prior to joining the Authority, he worked for the Town of Lexington, Massachusetts. He is a licensed registered Professional Engineer in the Commonwealth of Massachusetts. He holds a Master of Science degree in Civil Engineering and a Bachelor of Science degree in Civil Engineering from Northeastern University.

Elizabeth L. Taylor, Director of Finance & Treasury, joined the Authority in 1978, and was appointed to her current position in June 1999. She is responsible for developing and implementing the financial strategy for the Authority's capital program, for structuring the Authority's debt issues, for developing and implementing the investment policy for the Authority's cash and cash equivalents, for managing the Treasury Department and for submitting and monitoring the Airport's PFC applications. Formerly Assistant Budget Director of the University of Massachusetts, she holds an M.B.A. degree from the Stanford Graduate School of Business and a B.A. degree from Oberlin College.

Gail S. Titus, Director of Internal Audit, joined the Authority in August 2000. Reporting directly to the Members of the Authority, she manages the internal audit function to assist senior management in achieving business goals without undue business risk. Previously, she was the Chief Audit Executive for C&S Wholesale. Prior to that, she was with Coopers & Lybrand (now PricewaterhouseCoopers LLP). Ms. Titus is licensed in the Commonwealth as a Certified Public Accountant and holds a B.S., *summa cum laude*, from Western New England College.

Dennis P. Treece, Director of Corporate Security, joined the Authority in September 2002. Mr. Treece is responsible for all aspects of security within the Authority. Mr. Treece has 32 years of security-related experience and has provided security services to Global 1000 companies on four continents as well as a wide array of military and Executive Branch clients during his 30 years in Military Intelligence. Retiring from the U.S. Army in 2000 as a full Colonel, he held key intelligence and security related command and staff positions in Europe, the Balkans, the United States, the Middle East and Asia. Mr. Treece holds an M.A. in History from the University of La Verne and a B.S. in Business Administration from Arizona State University. He has also attended the U.S. Army Command and General Staff College and the U.S. Army War College.

AIRPORT PROPERTIES

Boston-Logan International Airport

The Airport is the principal source of the Authority's Revenues, Operating Expenses and Net Revenues and is the dominant factor in the determination of the Authority's financial condition. The Airport is situated principally in East Boston (with a small portion situated in the Town of Winthrop), approximately three miles from downtown Boston and adjacent to Boston Harbor. The total land area of the Airport is approximately 2,400 acres.

Air Service Region. The Airport serves the greater Boston area and plays the leading role in New England's air service infrastructure. Based upon information provided by the United States Department of Transportation ("*DOT*") and Airport traffic statistics for fiscal year 2006, approximately 88% of total domestic and international passengers at the Airport begin or end their air travel ("*origin-destination*" travel) at Logan Airport. See APPENDIX B – Boston-Logan International Airport Market Analysis.

The high percentage of origin-destination passengers in both the business and leisure markets is in contrast to many other major airports which are used in large part by airlines as connecting hubs for passengers en route to another point as their final destination. As a result of this traffic base, overall activity levels at Logan Airport are less vulnerable to significant fluctuations in connecting traffic resulting from route restructuring by individual airlines or other factors affecting particular airlines. Rather, Airport activity levels tend to reflect general economic conditions, regional economic and demographic trends and the economics of the airline industry. See APPENDIX B – Boston-Logan International Airport Market Analysis.

The following is based on information developed by SH&E and presented in the Airport Market Analysis contained in APPENDIX B hereto. The greater Boston area has strong wealth and income levels, a diversified economic base and provides strong support for origin-destination traffic at the Airport. Employment in Massachusetts has been growing steadily, increasing from 3.20 million in 2004 to 3.21 million in 2005 to 3.23 million in 2006. In the greater Boston area the professional services and health care industries are growing and together provide 33% of local employment. Technology, biotechnology, health care services, financial services and higher education are some of the leading industrial sectors. The Boston area's per capita income levels in calendar year 2006 is expected to be 32% above the national average and 8.1% above the New England average. In 2004 and 2005, Massachusetts per capita income grew faster than in the U.S. as a whole. The projected growth rates suggest that the Boston economy will

continue to grow with income increasing over the next 14 years at a pace slightly above the national average and faster than the last six years. See APPENDIX B – Boston-Logan International Airport Market Analysis.

Airport Traffic Levels. In calendar year 2006, based upon total passenger volume, Logan Airport was the most active airport in New England, the 19th most active in the United States and the 39th most active in the world, according to the Airports Council International ("*ACI*"). The Airport increasingly provides service to long- and mid-range domestic destinations as well as to international destinations.

The following table summarizes Airport operations and passenger traffic statistics for the most recent five fiscal years and the six-month periods ended December 31, 2005 and 2006. Both operations and passengers are grouped by origin and destination regardless of whether the carrier was a U.S. air carrier or a foreign flag carrier.

SELECTED BOSTON-LOGAN INTERNATIONAL AIRPORT TRAFFIC STATISTICS

(fiscal year ended June 30)

	2002	2003	2004	2005	2006	Six Months Ended 12/31/05	Six Months Ended 12/31/06
Aircraft Operations (1)							
Domestic (2)	197,844	190,609	184,836	210,357	206,426	102,798	108,375
International (3)	39,883	39,234	39,799	39,554	36,772	19,053	18,567
Regional (4)	145,749	123,702	132,496	131,074	128,337	70,142	68,191
General Aviation	25,524	27,880	28,890	32,352	31,016	16,712	17,140
Total Operations	409,000	381,425	386,021	413,337	402,551	208,705	212,273
Aircraft Landed Weights	19,872,000	19,576,000	19,864,000	20,822,000	20,376,000	10,333,000	10,378,000
Passengers Traffic							
Domestic (2)							
Enplaned	8,052,257	8,284,960	8,919,352	9,880,689	10,292,917	5,171,084	5,286,348
Deplaned	8,088,769	8,304,108	8,952,770	9,937,869	10,324,060	5,093,122	5,224,175
International (3)							
Enplaned	1,904,246	1,906,562	2,040,079	2,129,374	2,071,481	1,062,513	1,013,258
Deplaned	1,889,185	1,919,516	2,047,766	2,117,983	2,071,740	1,073,035	1,028,664
Regional (4)							
Enplaned	1,069,742	1,058,709	1,276,296	1,371,024	1,297,303	681,230	734,180
Deplaned	1,047,558	1,042,212	1,240,351	1,307,858	1,272,474	666,450	736,811
Subtotal Commercial Passenger Traffic	22,051,757	22,516,067	24,476,614	26,744,797	27,329,975	13,747,434	14,023,436
General Aviation							
Total Passengers	91,353	92,543	86,154	121,374	116,630	62,846	64,682
Total Passengers	22,143,110	22,608,610	24,562,768	26,866,171	27,446,605	13,809,280	14,088,118
Enplaned Passengers (Excluding general aviation traffic)	11,026,245	11,250,231	12,235,727	13,381,087	13,661,701	6,914,827	7,033,786
Average Passengers Per Flight							
Domestic (2)	81.6	87.0	96.7	94.2	99.9	99.8	97.0
International (3)	95.1	97.5	102.7	107.4	112.7	112.1	110.0
Regional (4)	14.5	17.0	19.0	20.4	20.0	19.2	21.6
Air Carrier and Passenger Metrics							
Primary carrier	Delta	Delta	Delta	Delta	Delta	American	American
Primary carrier market share	19.3%	19.2%	18.0%	16.9%	15.0%	15.5%	14.1%
Two top carriers market share	36.7%	36.6%	35.4%	33.0%	30.0%	30.7%	27.5%
Origination & destination share (5)	87.7% (6)	NA	88.0% (7)	NA	87.7% (8)	NA	NA
Compensatory airline payments to the Authority per enplaned passenger	$8.26	$10.22	$11.42	$11.56	$12.97	$12.63	$13.35
Logan Airport revenue per enplaned passenger	$23.19	$26.33	$27.39	$27.52	$29.03	$28.08	$29.95
Total Cargo & Mail	842,249	817,843	809,179	796,252	759,326	396,889	353,901

(1) Includes all-cargo flights, but excludes helicopters.
(2) Includes domestic flights on jets and charters.
(3) Includes international flights on jets and charters.
(4) Includes domestic flights by commuter carriers that operate smaller jet and turbo-prop aircraft with fewer than 100 seats.
(5) Source: This statistic is estimated in the market study prepared by SH&E included in the Authority's Official Statements. It is calculated only when the Authority issues bonds.
(6) Data for six months ended June 30, 2002.
(7) Data for 12 months ended September 30, 2004.
(8) Data for 12 months ended September 30, 2006.

Source: Authority reports.

Passenger traffic at the Airport totaled 27.4 million passengers for fiscal year 2006, a 2.2% increase from the 26.9 million passengers who used the Airport in the prior year. Passenger traffic increased 8.6% in fiscal year 2004, and 9.4% in fiscal year 2005. For the six-month period ending December 31, 2006, passenger traffic was 2.0% higher than the six-month period ending December 31, 2005. Fiscal year 2006 passenger traffic was within 1% of the peak year, which was fiscal year 2000.

In fiscal year 2006, passenger traffic at Logan Airport was 21.4% greater than fiscal year 2003. Over the same period, aircraft operations grew by 5.5%. The substantial difference between the 21.4% growth in passenger traffic and the 5.5% growth in operations is evidence that the average number of passengers per flight has grown substantially over the period. Over the fiscal year 2003 to 2006 period, landed weights increased 4.1%, a figure consistent with the relatively modest change in aircraft operations.

Landed weights for fiscal year 2006 were 2.1% below fiscal year 2005, and were 0.4% higher in the six-month period ending December 31, 2006 than in the corresponding period a year earlier. Landed weights grew 1.5% in fiscal year 2004, and grew a further 4.8% in 2005. See "AUTHORITY REVENUES – Airport Properties Revenues" and "MANAGEMENT'S DISCUSSION OF HISTORICAL OPERATING RESULTS."

In fiscal year 2006, domestic jet passengers accounted for 75.1% of passenger traffic, or approximately 20.6 million passengers. This segment increased by 4.0% in fiscal year 2006, following increases of 7.7% and 10.9% in fiscal years 2004 and 2005, respectively. From fiscal year 2003 through fiscal year 2006, domestic jet passenger traffic grew 24.3% while its share of total passenger traffic grew from 73.4% to 75.1%.

International passengers, including those traveling on foreign flag and U.S. flag carriers (including U.S. regional carriers) accounted for 15.1% of passenger traffic in fiscal year 2006, or approximately 4.1 million passengers. This segment decreased by 2.5% in fiscal year 2006. Of the 15.1% of passengers traveling internationally, 63.3% traveled to or from Europe and the Middle East, 19.2% to or from Bermuda and the Caribbean, 16.2% to or from Canada and 1.3% to or from Central and South America. From fiscal year 2003 through fiscal year 2006, international passenger traffic grew 8.3% while its share of total passenger traffic declined from 16.9% to 15.1%.

In fiscal year 2006, passengers traveling domestically on regional airlines accounted for approximately 9.4% of total passenger traffic at the Airport, or approximately 2.6 million passengers. The number of regional passengers (excluding passengers traveling internationally) grew by 19.8% and 6.4% in fiscal years 2004 and 2005, respectively, and decreased by 4.1% in fiscal year 2006. From fiscal year 2003 through fiscal year 2006, domestic regional traffic grew 22.5% while its share of total passenger traffic fluctuated between 9.3% and 10.2%.

Airline Passenger Services. As primarily an origin-destination airport, Logan Airport is served today, as it has been in the past, by a wide variety of carriers. As of December 31, 2006, airline service at the Airport, both scheduled and non-scheduled, was provided by 77 airlines, including six U.S. major air carrier airlines, 31 other domestic carriers, 24 non-U.S. flag ("*foreign flag*") carriers and 16 regional and commuter airlines ("*regional airlines*"). The Authority maintains separate statistical data for regional airlines, also known as "*regional carriers*." For purposes of the Authority's data compilation, regional airlines are defined as domestic commuter carriers that operate smaller regional jet and turbo-prop aircraft with fewer than 100 seats. These carriers are generally subsidiaries or affiliates of major domestic carriers.

The relative share of various carriers at the Airport has fluctuated with no individual carrier having a market share of over 20% in any of the past ten years (excluding regional partners). The following chart presents the relative shares of the U.S. air carrier airlines carrying the highest shares of total passenger traffic at the Airport, as well as the relative shares of the regional airlines and foreign flag carriers, during the last five fiscal years and the six-month periods ended December 31, 2005 and 2006. In fiscal year 2006, the two top air carriers, American and Delta Air Lines, carried 30.0% of the total passengers using the Airport. The eight carriers with the highest market shares—American Airlines, Delta Air Lines, US Airways (including US Airways Shuttle), JetBlue Airways, United Air Lines, AirTran Airlines, Northwest Airlines and Continental Airlines—carried 76.3% of all passengers traveling through the Airport during fiscal year 2006. The largest market share for fiscal year 2006 was shared by Delta and American, each with 15.0% of all passengers traveling through the Airport. See APPENDIX B – Boston-Logan International Airport Market Analysis. The market shares reported in Appendix B may differ from those stated herein because the Authority excludes data on airlines' regional affiliates when reporting market share data.

The lack of concentration in air carrier market shares has become more pronounced over the past five years. The share held by the largest carrier fell from 19.3% in fiscal year 2002 to 15.0% in fiscal year 2006. Over the same period, the market share held by the top two carriers fell from 36.7% to 30.0%, while the market share of the top four carriers fell from 63.1% to 53.5%.

BOSTON-LOGAN INTERNATIONAL AIRPORT
MARKET SHARES OF TOTAL PASSENGER TRAFFIC
(fiscal year ended June 30)

Air Carrier	2002	2003	2004	2005	2006	Six Months Ended 12/31/05	Six Months Ended 12/31/06
AirTran Airways	1.4%	2.6%	3.4%	3.7%	4.9%	4.6%	5.7%
American Airlines	17.4	17.4	17.4	16.1	15.0	15.5	14.1
Continental Airlines	4.9	4.7	4.4	4.2	4.3	4.3	4.2
Delta Air Lines (1)	19.3	19.2	18.0	16.9	15.0	15.2	12.0
JetBlue Airways (2)	0.0	0.0	2.0	5.7	9.5	7.0	11.7
Northwest Airlines	5.5	5.3	5.0	4.8	4.8	5.0	5.1
United Airlines	10.1	9.9	9.1	8.6	8.8	8.7	9.8
US Airways, Inc. (3)	16.2	14.9	15.7	14.5	13.9	13.8	13.4
Foreign Flag	10.7	11.2	10.8	10.1	9.8	10.4	9.9
Regional U.S. Carriers	10.4	10.9	10.8	10.6	10.0	10.5	10.9
Other U.S. Carriers	4.0	4.0	3.5	4.6	4.0	5.0	3.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Includes Delta Shuttle, Delta Express and Song. Data for Song are no longer reported separately as of May 2006.
(2) JetBlue Airways commenced service at Logan Airport in January 2004.
(3) Includes America West Airlines. In 2005 America West Airlines acquired US Airways and changed its name to US Airways, Inc. Includes US Airways Shuttle.

Source: Authority.

The market share of foreign flag carriers serving the Airport has been reasonably stable over the five years ending in fiscal year 2006, ranging between 9.8% and 11.2% of passenger traffic. Foreign flag carriers had a 9.8% market share in fiscal year 2006 as international passenger traffic on foreign flag carriers decreased 1.9%. The foreign flag carriers with the largest market shares in fiscal year 2006 were British Airways, Lufthansa German Airlines and Air France, with 1.8%, 1.3% and 1.1% of total passenger traffic, respectively.

The market share of the regional U.S. carriers has remained steady, fluctuating between 10.0% in fiscal year 2006 and 10.9% in fiscal year 2003. As of June 30, 2006, American Eagle, owned by AMR Corp., parent of American Airlines, accounted for the greatest share of all domestic regional traffic at the Airport, with 38.6% of domestic regional passengers, followed by the US Airways Express group of regional carriers, with 20.6% of domestic regional passengers.

Low-Cost Carriers. The distinction between low-cost carriers and legacy carriers continues to diminish as the legacy carriers have continued to restructure their operations either within or outside of bankruptcy protection and low-cost carriers have experienced increases in operating costs. In September 2005, America West Airlines purchased the assets of US Airways, which had been under bankruptcy protection, and made US Airways the corporate name of the combined carrier. While in bankruptcy from September 2005 through April 2007, Delta Air Lines shed costs and consolidated the operations of Song, its former low-cost operating division, under Delta's name. As of December 31, 2006, the low-cost carriers providing service at the Airport were AirTran Airways, JetBlue, Spirit Airlines and US Airways. As of December 31, 2006, these four carriers served 37 non-stop destinations (33 non-stop destinations excluding US Airways). During fiscal year 2006, these low cost carriers (in addition to Song, which reported passenger traffic for a portion of the year) handled 35.1% of the Airport's passengers (23.0% excluding US Airways). In fiscal year 2005, which was prior to America West's acquisition of US Airways, the low-cost carriers then serving

Logan Airport handled 20.6% of passenger traffic, up from 15.4% in fiscal year 2004. The number of passengers flying on low-cost carriers was 9.6 million in fiscal year 2006, up 74.3% from the 5.5 million passengers served by the low-cost carriers in fiscal year 2005. When passengers traveling on US Airways are excluded from the fiscal year 2006 low-cost carrier share, the number of passengers flying on low-cost carriers at Logan Airport grew by 14.4% compared with their performance in fiscal year 2005, while Airport passenger traffic as a whole grew by 2.2% in fiscal year 2006. See APPENDIX B – Boston-Logan International Airport Market Analysis. The number of low cost carriers serving Logan reported in Appendix B may differ from the number stated herein because the Authority considers US Airways to be a low cost carrier.

Since the commencement of service in January 2004, JetBlue has grown to be the Airport's fourth largest carrier with a market share of 9.5% in fiscal 2006. For the six months ended December 31, 2006, JetBlue's market share was 11.6%. AirTran has also grown significantly over the past five years becoming the Airport's sixth largest carrier with a 4.9% market share for fiscal year 2006 and a 5.7% share in the six months ended December 31, 2006. Logan Airport's low cost carriers provide low fare options mirroring the diversity of all air carriers that has long characterized the Airport's air service market.

The following chart shows the growth rate of passenger traffic for the eight largest carriers serving Logan Airport. In addition to JetBlue and AirTran, Continental, Northwest and United have experienced growth in passenger traffic in each of the last three fiscal years, demonstrating that legacy carriers have also been able to grow their businesses at the Airport.

BOSTON-LOGAN INTERNATIONAL AIRPORT
ANNUAL GROWTH IN PASSENGER BY CARRIER
(fiscal year ended June 30)

Air Carrier	**FY2003**	**FY2004**	**FY2005**	**FY2006**	**Six Months Ended 12/31/06 (1)**
AirTran Airways	92.1%	44.1%	20.1%	33.6	25.3%
American Airlines	2.3	8.4	1.3	-4.9	-7.2
Continental Airlines	-2.2	2.6	3.9	4.3	-0.1
Delta Air Lines	1.2	1.9	2.8	-9.1	-19.6
Jet Blue Airways (2)	-	-	219.4	69.5	69.1
Northwest Airlines	-1.3	2.5	5.8	2.0	5.2
United Airlines	-0.2	0.2	3.6	4.8	14.7
US Airways, Inc. (3)	-6.1	14.3	0.9	-1.8	-0.7
Foreign Flag	5.8	5.0	2.9	-1.9	-2.6
Regional U.S. Carriers	6.2	8.0	7.8	-4.3	6.1
Other U.S. Carriers	2.9	-7.1	45.8	-11.3	-33.7
Total	2.1%	8.6%	9.4%	2.2%	2.0%

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(1) Growth relative to six months ended December 31, 2005.
(2) JetBlue Airways commenced service at Logan Airport in January 2004.
(3) Includes America West Airlines. In 2005 America West Airlines acquired US Airways and changed its name to US Airways, Inc. Includes US Airways Shuttle.

Source: Authority.

The expansion of low-cost carrier service and the combination of improving national and regional economies have stimulated traffic growth at the Airport during the fiscal year 2004 to 2006 period. Major carriers at the Airport have responded to low-cost carriers with service and price competition. While much of the recent traffic growth was facilitated by low-cost carrier activity, other factors have contributed to the growth of traffic at the Airport, including significant infrastructure investments, aggressive marketing efforts and untapped market potential.

Passenger Markets. As of December 31, 2006, scheduled non-stop service from the Airport was offered to 75 domestic and 28 international destinations compared with 70 domestic and 25 international airports as of December 31, 2005. In addition to increasing the number of non-stop destinations offered, carriers have altered flight frequencies to markets they continue to serve, as they seek a better balance between supply and demand.

Airline service patterns between Boston and smaller cities within 250 miles of the Airport continue to change. Airlines have reduced and/or eliminated large jet service to certain short-haul markets, and regional airlines have commenced service to many such markets. In addition, many major carriers are relying on their affiliated regional carriers to explore the viability of service to new markets and increased frequency of service to existing markets. Many regional airlines are making significant investments in regional jet aircraft with 70-100 seats.

The destinations chosen by passengers using the Airport have changed over the years, reflecting the impacts of domestic and international economic cycles, September 11 and the relative cost of air travel. The percentage of passengers traveling by air between Boston and New York/Newark has declined while international traffic and long-haul traffic have increased. In calendar year 1997, approximately 13.0% of total domestic Airport passenger traffic was with New York/Newark, compared to 9.6% in calendar year 2006. Conversely, during that same period, domestic traffic with airports in Florida grew from approximately 11.7% to 17.7%. In addition, international traffic at the Airport increased slightly as a percentage of overall traffic from approximately 14.1% to 14.6% during the same period. In calendar year 2006, the top five international origin-destination markets were London, Paris, Dublin/Shannon, Toronto and Frankfurt.

The following table shows the percentage of passengers traveling on U.S. air carriers between the Airport and other final domestic destinations for calendar year 2006, as reported by DOT. Passengers traveling on international flights are not included. It also shows the comparative ranking of the top 20 domestic destinations for calendar year 1997.

BOSTON-LOGAN INTERNATIONAL AIRPORT
TOP TWENTY DOMESTIC PASSENGER MARKETS
U.S. CERTIFICATED CARRIERS
(12 Months Ended December 31, 2006 and 1997)

Market	Calendar 2006 Percentage	Calendar 2006 Rank	Calendar 1997 Rank
New York, New York / Newark, New Jersey	9.6%	1	1
Washington D.C.	9.0	2	2
Florida South*	5.6	3	6
San Francisco, California	5.6	4	5
Los Angeles, California	5.1	5	4
Orlando, Florida	4.8	6	7
Chicago, Illinois	4.7	7	3
Atlanta, Georgia	4.1	8	8
Philadelphia, Pennsylvania	3.3	9	9
Tampa, Florida	2.6	10	11
Fort Myers, Florida	2.4	11	19
Las Vegas, Nevada	2.4	12	13
Denver, Colorado	2.3	13	14
Dallas, Texas	2.3	14	10
West Palm Beach, Florida	2.2	15	12
Minneapolis - St. Paul, Minnesota	1.9	16	18
Seattle, Washington	1.7	17	20
Detroit, Michigan	1.5	18	17
Houston, Texas	1.5	19	-
Phoenix, Arizona	1.4	20	16
Baltimore, Maryland	-	-	15
Total for Cities Listed	74.1%		

* Florida South consists of Miami and Fort Lauderdale.
Source: DOT

Other Factors. The future level of aviation activity and enplaned passenger traffic at the Airport will depend upon factors such as general regional, national and international economic conditions, potential security threats and the financial condition of individual airlines and their continued service at the Airport. The Authority strives to manage operating and capital costs to relieve the burden on aeronautical rates and charges for airlines and their passengers when possible. For a discussion of the impact of the Northwest bankruptcy on the Authority, see "AVIATION INDUSTRY CONSIDERATIONS – Effect of Bankruptcy of Air Carriers."

There are two primary regional airports in New England, T.F. Green Airport in Providence, Rhode Island ("*T.F. Green*") and Manchester Airport in Manchester, New Hampshire ("*Manchester*"), that compete with Logan Airport. Logan Airport is by far the largest airport in the region and the only one providing direct service to Europe or the Caribbean. Logan Airport enplaned 13.8 million passengers in calendar year 2006. Over the same period, T.F. Green and Manchester enplaned 2.6 million and 2.0 million passengers, respectively. The 4.7 million passengers enplaning on low-cost carriers at Logan Airport in calendar year 2006, was significantly larger than the 2.8 million enplanements for low-cost carriers at T.F. Green and Manchester combined.

Cargo Airline Services. The Airport plays an important role as a center for processing domestic and international air cargo. According to ACI, in calendar year 2006 the Airport ranked 19th in the nation in total air cargo volume. As of December 31, 2006, the Airport was served by ten all-cargo and small package/express carriers. For 2006, the companies with the largest shares of enplaned and deplaned cargo at the Airport, based upon cargo tonnage,

were Federal Express, United Parcel Service, American Airlines, British Airways, Lufthansa German Airlines and DHL Airways. Together, these six carriers accounted for 73.5% of total cargo and mail handled at the Airport in fiscal year 2006.

Cargo and Mail Traffic. In fiscal year 2006, total combined cargo and mail volume was approximately 759.3 million pounds. This total volume consisted of 59.7% small package/express, 34.9% freight and 5.4% mail. The total volume of air cargo and mail handled at the Airport decreased in fiscal year 2006 by 4.6% compared to fiscal year 2005 and decreased by 1.6% in fiscal year 2005 relative to fiscal year 2004. A large percentage of total cargo volume for these periods is attributable to integrated all-cargo companies and small package/express carriers. The integrated all-cargo companies, which include Federal Express, United Parcel Service, Emery World Wide, ABX Air, Inc., DHL, Air Transport International, and Kitty Hawk Airlines, handled approximately 62.6% of the Airport's cargo in fiscal year 2006, compared to 61.4% in fiscal year 2005.

Airport Facilities

Airside Facilities. The Airport has four major runways of 10,081 (runway 15R/33L), 10,005 (runway 4R/22L), 7,860 (runway 22R/4L) and 7,000 (runway 9R/27L) feet in length, all of which can accept the largest types of aircraft currently in commercial service, and a new 5,000 foot uni-directional runway ("*Runway 14/32*") that was commissioned in November 2006. See "CAPITAL PROGRAM – Logan Airport Improvements – Airfield Operational Enhancements." Inclined safety over-run areas have been constructed at the end of two of the Airport's runways and a fire and rescue access road at the approach end of two runways (4R and 4L) provides emergency access in the event of a water rescue operation. The Airport also has a 2,557-foot runway (33R/15L) used primarily by general aviation aircraft and some small commuter aircraft, approximately 93 acres of concrete apron, 144 acres of asphalt apron and 14.5 miles of taxiway. The airfield is equipped with a 250-foot high control tower staffed by the Federal Aviation Administration ("*FAA*"), high intensity runway lights, four approach light systems, threshold lights, touchdown zone lights, airport surveillance radar, aircraft radio communication facilities, radio navigation installations, a Category II Instrument Landing System ("*ILS*") operational at one runway approach, and Category I ILS systems at four other runway approaches. Navigational equipment is operated and maintained by the FAA. A state-of-the-art fire and rescue facility and a satellite fire and rescue facility on the airfield were completed in the late 1990s.

Terminal Facilities. Four terminals (the "*Terminals*") serve commercial passengers at the Airport. As of March 31, 2007, the Terminals in operation included: (1) Terminal A with 18 gates and seven regional jet parking positions, which opened on March 16, 2005; (2) Terminal B with 36 gates, completed in 1976, with renovations of portions of the Terminal completed by American in 1995 and US Airways in 1998 and 2000; (3) Terminal C with 24 gates, completed in 1967, with renovations completed by the Authority in 1987 and by United in 2002; and (4) Terminal E with access to 16 gates, completed in 1974, with renovations completed in August 1997 ("*Terminal E Modernization*"), the new 410,000 square foot South Addition, which opened in 2003, and the remainder of the International Gateway Project now underway. See "CAPITAL PROGRAM – Logan Airport Improvements – International Gateway." Terminal A is currently used by Delta, including Delta Shuttle and Comair (Delta Connection) and will be used by one or more additional airlines as the vacant gates in Terminal A are leased to other airlines. Terminal B is used by Alaska Airlines, American, American Eagle, and US Airways/US Airways Shuttle/US Airways Express. Terminal C is used by AirTran, Cape Air, Continental, Continental Express, Midwest, United/United Express, and JetBlue. Terminal E is used for all flights by Northwest and for all arriving international flights requiring federal inspection services and most departures by foreign flag carriers, including Aer Lingus, Air France, Alitalia, British Airways, Finnair, Icelandair, Lufthansa, Swiss International, and Virgin Atlantic Airways. The majority of charter airlines utilize Terminal E, although charter airlines also operate from other Terminals. The former Amelia Earhart general aviation terminal has been converted to a regional carrier facility, and is currently occupied by American Eagle. The Airport also has general aviation facilities located in the North Cargo Area currently occupied by Signature Flight Support.

Lease Arrangements for Terminal Facilities. The Authority exercises significant control over Terminal facilities at Logan Airport through the leasing arrangements it has entered into with the carriers operating at the Airport. The Authority uses a combination of short-term leases, preferential use provisions, recapture provisions and forced subletting provisions to allow it to allocate its gate resources effectively and accommodate new entrant carriers. All leases with air carriers for Terminal space at the Airport currently provide that the Authority may revise rental rates

periodically at the discretion of the Authority to recover the actual direct and indirect capital and operating costs for the leased space. The Authority resets these rates each fiscal year to recover its actual capital and budgeted operating costs.

In general, the Authority prefers to lease space on a year-to-year basis. This provides the Authority the flexibility to allocate gates so that carriers will maximize usage of these facilities. The Authority also has adopted a preferential use policy applicable to all gates at Logan Airport. Under the conditions specified in the policy, the Authority may schedule arrivals and departures at a gate by carriers other than the tenant for any period that the tenant is not using the gate. The tenant carrier must permit the carrier being accommodated under the policy to use the holdroom, loading bridge, baggage claim and other related facilities required for the functional use of the gate, and may assess reasonable fees for such use. If a tenant carrier fails to accommodate a carrier under the terms of the preferential use policy, then the Authority may convert the gate to a common use gate.

In connection with significant investments of capital in Terminal facilities, the Authority has granted carriers making such Terminal improvements leases with terms longer than one year. Except for the lease with Northwest Airlines, each of the long-term leases provides for the "recapture" of gates by the Authority if the tenant carrier's average usage (measured in the number of daily operations per gate) falls below a certain Airport-wide average for such usage. These leases also generally require that, at the request of the Authority, the tenant carrier sublease a certain number of gates, as specified in the lease. For a more detailed description, see APPENDIX B – Boston-Logan International Airport Market Analysis – "Massport's Ability to Ensure Efficient Gate Utilization."

As of March 31, 2007, the Authority had entered into long-term leases with American, Delta, JetBlue, Northwest Airlines and US Airways for a total of 56 gates at the Airport. Many of the recent Terminal improvements have been financed with proceeds of special facilities revenue bonds issued by the Authority; construction or improvement of 48 gates at the Airport has been financed on a non-recourse basis to the Authority. In no case are such bonds secured by Revenues of the Authority or by a mortgage or other lien on property at the Airport. However, the Authority has agreed with respect to its leases with Delta and US Airways to use reasonable efforts to relet gates in the event of a default by the tenant. See "OTHER OBLIGATIONS – Special Facilities Revenue Bonds."

Delta reconstructed Terminal A. The new facility, with 18 gates and seven additional regional aircraft parking positions, opened for service on March 16, 2005. Delta's original lease was for an initial five-year term, with 20 one-year automatic extensions. However, Delta filed for protection under Chapter 11 of the U.S. Bankruptcy Code ("*Chapter 11*") in September 2005. The Authority and Delta negotiated a "Restated and Amended" lease effective as of July 1, 2006. As a result, Delta now has a ten-year lease, which includes 12 gates and four regional aircraft positions. The Authority is actively seeking tenants for the remaining Terminal A gates and has executed a term sheet with Continental (currently located in Terminal C) for the lease of four contact gates and two regional aircraft positions. Delta emerged from bankruptcy on April 30, 2007. See APPENDIX B – Boston-Logan International Airport Market Analysis – "Massport's Ability to Ensure Efficient Gate Utilization." The Authority is under no obligation to assume any liability for the Terminal A special facilities revenue bonds or to direct revenue, other than a portion of the Terminal A airline revenue, to service the debt. See "OTHER OBLIGATIONS – Special Facilities Revenue Bonds." US Airways constructed two projects in Pier B of Terminal B, completed in 1998 and 2000, which have added a new wing with four new gates, as well as expanded and renovated holdroom, baggage and concessions areas. US Airways leases 20 gates pursuant to a lease with a term that expires September 30, 2023. Similarly, American has invested a significant amount of funds in improvements to Pier A of Terminal B, pursuant to a lease of ten gates with a term expiring in 2010, which may be extended to 2015 at the option of the Authority. American also leases four gates pursuant to a month-to-month lease. JetBlue has entered into a lease that will result in JetBlue leasing 11 gates at Terminal C by November 1, 2008. Commencing May 1, 2005, JetBlue initially leased five gates, and beginning May 1, 2006, JetBlue has agreed to lease one additional gate every six months until it has leased all 11 gates. As of March 1, 2007, JetBlue leased eight gates in Terminal C; the JetBlue lease runs through April 30, 2010, with 20 automatic one-year extensions. United has renovated all of Pier B of Terminal C at a cost of more than $60 million. In 1998, the Authority entered into a year-to-year lease with United for ten gates; provided, that if the Authority does not extend the lease for a total of at least 15 years, the Authority shall be required to purchase the unamortized value of a portion of the improvements made by United to Pier B of Terminal C. US Airways and United affirmed their leases at Logan when they emerged from bankruptcy. As of the date of this Official Statement, Northwest has not rejected its executory leases at Logan Airport, and has continued to make its rental payments with respect to rent due after the date such carrier filed for bankruptcy protection. There can be no assurance, however, that Northwest will assume their

leases or will reorganize and emerge from bankruptcy as an operating carrier. See "AVIATION INDUSTRY CONSIDERATIONS – Effect of Bankruptcy on Air Carriers."

Parking Facilities. Private automobiles are the primary means of ground transportation to and from the Airport. See "Ground Access to the Airport" below. Based upon a 2003 passenger survey, the Authority estimates that approximately 32% of all passengers arrive at Logan Airport in private automobiles, and of those, 35% (or 11% of total passengers) use the Airport's parking facilities.

There are currently 14,998 in-service commercial parking spaces located at Logan Airport, which includes the recent addition of approximately 2,800 new spaces opened as part of the reconstruction and expansion of its Central Garage. See "CAPITAL PROGRAM – Logan Airport Improvements" herein. At any time, the number of parking spaces in service will vary, primarily due to the need to use surface parking areas for construction projects. The Authority retains the ability to locate and relocate commercial parking spaces within the boundaries of the Airport, subject only to the provisions of the Logan Airport parking freeze (the "*Airport parking freeze*"). The Airport parking freeze is a component of the State Implementation Plan ("*SIP*") filed by the Commonwealth with the United States Environmental Protection Agency ("*EPA*") under the federal Clean Air Act.

The number of commercial and employee parking spaces currently permitted for use by the Airport is limited to 20,692, of which no more than 5,225 may be employee spaces, in compliance with the Airport parking freeze. Under the Airport parking freeze, the Authority may shift the location of on-Airport parking spaces or convert employee spaces to commercial spaces. Once parking spaces have been converted from employee to commercial use, however, they cannot be converted back to employee use. The Authority may not increase either the number of employee spaces or, except as described below, the total number of parking spaces in the Airport parking freeze area. The SIP permits private park-and-fly and rental car lots in East Boston to be transferred to the Airport to increase the number of commercial spaces under the Airport parking freeze, subject to the approval of the Commonwealth's Department of Environmental Protection ("*DEP*") and EPA. Pursuant to the ParkEX Acquisition, described below, in January 2001, the Authority acquired the right to 1,377 commercial parking spaces, which the Authority relocated to the Airport parking freeze area and which account for a portion of the 20,692 permitted parking spaces. See "Construction of Central Artery/Ted Williams Tunnel – ParkEX Acquisition" below. These parking spaces cannot be moved back to East Boston once relocated to the Airport.

The flexibility to relocate on-Airport parking facilities and the ability to transfer employee spaces off-Airport allow the Authority to accommodate parking due to changed circumstances, such as FAA security alerts, the construction of the Ted Williams Tunnel interchange, construction of consolidated parking facilities at the Airport and construction of the Logan Modernization projects. Relocating employee parking spaces off-Airport and construction of the West Garage has resulted in the conversion of 1,875 on-Airport employee parking spaces to commercial parking spaces, consistent with the Airport parking freeze.

Cargo Facilities. Logan Airport's cargo facilities currently include seven buildings containing approximately 452,197 square feet. Included in these facilities are three cargo buildings completed in 1991 totaling 215,675 square feet and an additional 52,448 square foot building completed in 1998, each located in the South Cargo Area of the Airport. The Authority owns and leases two cargo buildings in the North Cargo Area comprising 49,137 square feet. Tenants of cargo facilities at the Airport include Federal Express (occupying 123,758 square feet), American, Continental, Delta, Signature Flight Support, United, United Parcel Service, Globe Ground and East Coast. Northwest occupies another cargo building of 85,000 square feet at the South Cargo Area under a 25-year lease executed in 1982. The majority of the remaining cargo airlines or companies occupy facilities under short-term leases in various areas of the Airport. In addition, a number of air cargo operations have moved to off-Airport locations using thru-put facilities operated by cargo handlers.

Aircraft Fuel Systems. Aircraft fuel is currently stored in and distributed through an integrated fuel storage and distribution system completed in 1999 and extended to Terminal A in 2005. The fuel system is leased to BOSFUEL Corporation ("*BOSFUEL*"), a membership corporation whose members consist of the principal air carriers serving the Airport, and the system is operated by Swissport, Inc. In 1997, in order to finance construction of the fuel system, the Authority issued special facilities revenue bonds. See "OTHER OBLIGATIONS – Special Facilities Revenue Bonds." In calendar year 2007, the Authority expects to issue additional special facilities revenue bonds, which will refund the existing bonds and also finance the additional improvements to the fuel storage and distribution

system. The lease between the Authority and BOSFUEL requires BOSFUEL to pay ground rent and other fees for the use of the fuel system, including amounts sufficient to pay the debt service on the BOSFUEL Project Bonds, and BOSFUEL is responsible for the operation and maintenance of the fuel system. The fuel system provides for a redundant underground distribution of aircraft fuel to all gates between Terminals even if a portion of the new system were to be out of service.

Service and Support Facilities. Airport facilities also include six car rental service areas, two facilities for preparation of in-flight meals, a Hilton hotel, a Hyatt conference center and hotel and five aircraft maintenance hangars.

The Authority operates field maintenance facilities, a water pumping station, electrical sub-stations and distribution system, and a plant that supplies steam, hot water and chilled water. In September 2005, the Authority entered into a long-term agreement pursuant to which NStar provides wholesale distribution services to the Authority. At that time, the Authority also completed the competitive procurement of electricity supply (power generation) from qualified competitive suppliers. In 2005, the Authority entered into a five-year contract for the supply of baseload electricity supply with WPS Energy Services, Inc. ("*WPS*"). WPS subsequently merged with Peoples Energy and now operates under the name Integrys Energy Group, Inc. Additionally, the Authority purchases ancillary services and a portion of its electricity needs from the Independent Systems Operator of New England (ISO-NE) managed energy markets.

Ground Access to the Airport

Access between the Airport and the central business district of Boston and the western and southern suburbs requires transportation across Boston Harbor. The roadways and the Sumner and Callahan tunnels providing this access have had a history of being congested at peak travel times. In order to alleviate a portion of this congestion, the Commonwealth undertook a major roadways project in downtown Boston, including a new cross-harbor tunnel (the "*Ted Williams Tunnel*"). The Ted Williams Tunnel, which is owned and operated by the Massachusetts Turnpike Authority (the "*Turnpike Authority*"), provides direct highway access between the Airport, the Southeast Expressway/Interstate Route 93 ("*I-93*"), the Massachusetts Turnpike/Interstate Route 90 (the "*Massachusetts Turnpike*" or "*I-90*") and Boston's South Station passenger rail terminal. The Ted Williams Tunnel opened to commercial vehicles in December 1995. In January 2003, the direct connections between the Massachusetts Turnpike, I-93 North and the Ted Williams Tunnel opened, and the Ted Williams Tunnel was opened to all traffic and in April 2005, the direct connection to I-93 South opened. The Sumner and Callahan Tunnels, which are also owned and operated by the Turnpike Authority, are undergoing phased rehabilitation.

The Authority encourages the use of alternatives to private automobile transportation through public information and advertising campaigns and the development of reliable and innovative alternative transportation services. As part of its planning to enhance Airport roadway efficiency and terminal curb utilization while protecting environmental quality, the Authority operates the "Logan Express" bus service between the Airport and Framingham, to the west of Boston, Braintree, to the south of Boston, Woburn, to the northwest of Boston along I-95/Route 128 and Peabody, to the north of Boston along I-95. Together, these four sites include approximately 5,225 parking spaces and handle over one million passengers a year.

In addition to Logan Express, the Authority also has contracted for the operation of free shuttle bus service from the Terminals to the Massachusetts Bay Transit Authority ("*MBTA*") Airport Blue Line station as well as to the Authority's remote economy and employee parking lots. An on-demand water taxi service commenced operation in 1995, and weather permitting, runs year round. Additional water shuttle service from Quincy to the Airport commenced in 1997, and operations were assumed by the MBTA in June 2002. Commencing January 2005, the MBTA began service to Logan Airport through the new Silver Line, which originates at South Station and serves South Boston, including the Authority's Commonwealth Flats properties. The Authority purchased eight dual-mode articulated buses, pays a portion of the annual operating costs and receives a portion of the revenue generated from such service.

The Authority continues to seek new ground transportation alternatives for travel to and from the Airport in furtherance of the Authority's ongoing planning to reduce Airport related traffic on the local and regional highway system. According to surveys of enplaning passengers conducted by the Authority approximately every three years from 1987 through 2003, use of high occupancy vehicle modes increased from 23% in 1987 to 32% in 2003. These

high occupancy vehicle modes include MBTA transit, Logan Express, water shuttle, door-to-door limousine, scheduled and charter buses and others. Private vehicle mode use, which includes pickup/drop off, taxi, on-airport parking and rental car, decreased from 77% in 1987 to 68% in 2003, the year of the most recent survey.

Construction of Central Artery/Ted Williams Tunnel

As part of the completion of the federal interstate highway program, the Commonwealth, through the Massachusetts Highway Department ("*MHD*") and the Turnpike Authority, undertook the depression of a portion of I-93 in downtown Boston (the "*Central Artery*"), and the extension of the eastern terminus of I-90 to the Airport and Route 1A via construction of the Ted Williams Tunnel (collectively referred to herein with the Central Artery as the "*CA/T Project*"). While the Authority has not been responsible for the construction of the CA/T Project, the Authority has actively supported it as an important long-term means of improving ground access to the Airport. The CA/T Project has affected certain properties and facilities at the Airport, primarily through acquisition of certain temporary and permanent interests in Airport land. CA/T Project construction activities at the Airport will continue through calendar year 2007. These remaining activities are not expected to result in any significant disruption of Airport operations or any decrease in the number of aircraft operations. Further, Authority staff is working closely with MHD and the Turnpike Authority to ensure that the impact of the construction activities on the Airport's ground traffic system will continue to be minimized through traffic management controls developed by the Authority.

The Authority entered into a roadway transfer agreement dated as of March 23, 1999, which has been amended, with MHD and the Turnpike Authority (as amended, the "*Roadway Transfer Agreement*") that provides for the Authority's acquisition of certain identified segments of the CA/T Project located at the Airport following completion of construction of such segments, in exchange for installment payments by the Authority to the Commonwealth totaling an aggregate of $365 million. See "CAPITAL PROGRAM – Airport Improvements – Airport Roadways Acquisition from CA/T Project." In advance of acquiring title to these segments of the CA/T Project, the Authority has undertaken an existing condition inspection of the roadway assets that are in service to ensure that construction of these assets has been completed in accordance with the Roadway Transfer Agreement and meets industry standards. The inspection has revealed certain deficiencies. The Authority is working with MHD and the Turnpike Authority on a schedule of repairs. The Authority expects that this undertaking will continue through calendar year 2007. As with the aforementioned CA/T construction activities, the repair activities are not expected to result in any significant disruption of Airport operations.

ParkEX Acquisition. In order to mitigate the impact of the Ted Williams Tunnel roadways on the East Boston community, as part of the CA/T Project, a public park (the "*Bremen Street Park*") is in its final stages of construction on the former site of a privately owned off-Airport parking facility. To facilitate creation of the park, the Authority, MHD and the owners of the parking facility agreed in 2001 to implement a three-way land swap. Pursuant to that agreement, the Authority purchased a park and fly business ("*ParkEX*") located near the Airport in East Boston. The purchase price for ParkEx was $75.6 million, of which $74 million was paid through the issuance of two series of the Authority's Subordinated Revenue Bonds. The Authority then granted title to the ParkEX site to MHD in exchange for title to an approximately seven acre site abutting the northwest area of the Airport and $12 million cash. As a result of these exchanges, the Authority acquired approximately seven acres of land on the north side of the Airport, which will have direct access to the airfield, and the right to relocate 1,377 commercial parking spaces from the East Boston parking freeze area to the Airport parking freeze area; the former owners of the parking facility received $74 million of the Authority's Subordinated Revenue Bonds and $1.6 million in cash; and MHD acquired the site of the proposed public park. See "OTHER OBLIGATIONS – Subordinated Revenue Bonds." The Authority expects to begin operating and maintaining portions of the park this summer and, pursuant to legislation enacted in 2004, upon completion of the Bremen Street Park during calendar year 2007, the Authority will acquire the park for one dollar and subsequently maintain and operate it. See "LEGISLATIVE DEVELOPMENTS."

Hanscom Field

Hanscom Field is located principally in the Town of Bedford, Massachusetts, approximately 15 miles northwest of Boston. It encompasses approximately 1,300 acres, of which about 55 acres are occupied by the United States Air Force. Hanscom Field has two principal runways of 5,100 and 7,000 feet, hangars, a terminal building, taxiways and ramps. The Air Force owns approximately 850 acres adjacent to Hanscom Field. In July 1974, the

Authority assumed full responsibility for operating and maintaining the airfield by agreement with the United States Air Force.

It is anticipated that Hanscom Field will continue to develop as an alternative to the Airport for general aviation and niche commercial service. General aviation operations, including business related activity, charters, and light cargo, as well as flight training and recreational flying, currently represent 99% of the activity at Hanscom Field; military aircraft conduct about 1% of the operations. Pan Am Clipper Connection, a regional airline affiliated with Boston-Maine Airways, provides commuter airline service from Hanscom Field to niche service markets, including Trenton (NJ), Elmira/Corning (NY), and New Haven (CT). The airfield is currently served by two full service fixed base operators, as well as several limited service fixed base operators.

Worcester Regional Airport

On April 15, 1999, the Authority entered into a Memorandum of Understanding (the "*Worcester MOU*") with the City of Worcester, Massachusetts and the Worcester Airport Commission. The Worcester MOU contemplates the takeover of Worcester Airport by the Authority in two separate phases. Phase One involves the assumption by the Authority of operating responsibility for Worcester Airport pursuant to the Worcester OA. Phase Two would involve the transfer of title to Worcester Airport from the City of Worcester and the Worcester Airport Commission to the Authority. Transfer of title to Worcester Regional Airport to the Authority would require legislative action, and as of the date of this Official Statement, no such legislation has been filed.

In January 2000, the Authority entered into the Worcester OA with the City of Worcester and the Worcester Airport Commission. The Worcester OA transfers operating responsibility for Worcester Airport to the Authority. It also provides that the Authority will pay a portion of the annual operating deficit, increasing incrementally from $250,000 in fiscal year 2000 to 100% of the deficit in fiscal years 2003 and 2004. In fiscal years ending 2004 and 2003, the Authority paid $2.2 million and $1.9 million, respectively, for the net operating deficits at Worcester Regional Airport. The Worcester OA was amended in 2004 to extend its term to June 30, 2007 and to allocate to the Authority responsibility for 100%, 85% and 68% of Worcester Regional Airport's operating deficit for fiscal years 2005, 2006 and 2007, respectively. Such payments for operating deficits are made by the Authority solely from funds on deposit in the Improvement and Extension Fund, which is subordinate to debt service on the Bonds. The City of Worcester remains liable for all capital costs not funded with federal or state grants. As of August 2006, scheduled commercial service ceased at Worcester Regional Airport, although the airport continues to serve general aviation. The Authority and the City of Worcester are currently engaged in negotiations concerning a new agreement.

TOBIN MEMORIAL BRIDGE

The Bridge was opened to traffic in 1950 and was acquired by the Authority in 1959 from the Mystic River Bridge Authority. A part of U.S. Route 1, it extends across the Mystic River from the Charlestown section of Boston to the City of Chelsea, and connects Boston's Central Artery and the Northeast Expressway. It is a direct expressway connector from Boston to Maine and eastern New Hampshire. Facilities competitive to varying degrees with the Bridge are the tolled Sumner and Callahan Tunnels and the Ted Williams Tunnel, which are owned and operated by the Turnpike Authority, two toll-free bridges serving local roads (the Alford Street and Wellington Bridges) and toll-free I-93.

The Bridge is a high level, double-decked structure with three traffic lanes on each deck and seven toll collection booths on the southbound deck. Tolls are collected both electronically via the "FastLane" program, which is compatible with and operated by the Turnpike Authority, and manually. The upper deck serves southbound traffic to downtown Boston and the lower deck serves northbound traffic. The structure has an overall length of 9,450 feet (exclusive of approach ramps) and a vertical clearance of 135 feet above mean high water.

PORT PROPERTIES

The Authority owns, develops, operates and maintains Port Properties comprising certain waterfront properties transferred to it from the Commonwealth in 1959, as well as additional properties subsequently acquired. The Authority administers these Port Properties through the Maritime Department. The Maritime Department plans, develops and manages cargo and passenger terminals and related maritime properties in the Port, and also plans, develops and manages real estate for maritime, industrial and commercial uses. The Authority believes that in the long-term, this diversified land use strategy will provide a non-maritime revenue stream to finance the continuing capital development of the Port's cargo and passenger terminals, reducing the burden on the Authority's other revenue sources. The Authority views the Port Properties as an important component of its goal to facilitate the participation of the Massachusetts economy in international trade.

Maritime Properties

The Authority owns, manages, develops, operates and markets the public cargo and passenger terminals and related maritime properties of the Port. Boston is New England's major port and the only port in the region providing a full range of container handling, cruise ship, bulk, breakbulk, automobile processing, petroleum, and ship repair services. The Authority's maritime business activities include cargo handling (including containers, bulk materials and automobiles), serving as a home port and port of call for cruise ships, and leasing property for maritime industrial uses.

Cargo and passenger activity during fiscal years 2002 through 2006 are summarized in the table below.

Port Activity	**2002**	**2003**	**2004**	**2005**	**2006**
Containers (1)	72,537	86,149	93,627	103,631	111,020
Automobiles (2)	80,070	29,559	12,198	10,657	11,170
Bulk Tonnage	207,583	162,824	144,304	189,517	202,681
Cruise Passengers	246,539	207,254	200,836	192,869	246,365

(1) Does not include over-the-road volumes.
(2) Includes vehicles entered by over-the-road means through September 1998; does not include vehicles entered by over-the road means after September 1998.

Source: Authority.

All container operations are consolidated at Conley Terminal in South Boston with related chassis rental and repair services at Fargo Street Terminal. The Moran Terminal in Charlestown functions as an automobile importing, preparation, processing and distribution facility. In addition, the Medford Street Terminal is dedicated to bulk or other cargo use.

Conley Terminal. Conley Terminal, a 101-acre facility in South Boston, is served weekly by two consortia of international steamship lines sharing some of the largest container ships on the North Atlantic. In March 2002, a consortium comprised of Cosco, K Line, Yang Ming Line, and Hanjin Shipping Company began providing direct weekly inbound and outbound service between Asia and Boston. Since 1988, Mediterranean Shipping Company has provided direct weekly service between Boston and Northern European and Mediterranean ports. These services are supplemented by a weekly barge service from and to the Port of New York/New Jersey. and a bi-weekly European vessel call from CMA-CGM steamship line. The weekly feeder service from and to Halifax, Nova Scotia suspended operations in August 2006 due to bankruptcy of the vessel owner. It is anticipated that this service will start up in July 2007 by another steamship line. Container volume is closely tied to overall economic conditions in Massachusetts, New England and international markets. In 2005, the Port was ranked as the tenth largest container port on the U.S. Atlantic Coast by container volume, and handled approximately 1% of all U.S. Atlantic Coast port volume.

Moran Terminal. This 64-acre facility in Charlestown is leased entirely to Boston Autoport LLC ("*Boston Autoport*"). Boston Autoport's members are the only automobile processing entities using the Port. Increased domestic production by foreign automakers has reduced vehicle imports into the United States by water. Volkswagen of America, Boston Autoport's largest account, relocated to Rhode Island at the end of 2002. However, Boston Autoport continues to import and store automobiles and pursue other complementary marine industrial subtenants, while making base lease payments to the Authority and receiving other revenues from subleases on the site.

Black Falcon Cruise Terminal. This terminal at the former Boston Army Base in South Boston was completed in 1986. For the 2007 cruise season, which runs from May through October, 102 vessels are scheduled to call carrying an estimated 251,000 passengers. The 2006 cruise season ended with 81 vessel calls and 209,000 passengers, the 2005 cruise season ended with 102 vessel calls and 233,000 passengers, the 2004 cruise season ended with 95 vessel calls and 199,000 passengers, the 2003 cruise season ended with 100 vessel calls and 197,000 passengers and the 2002 cruise season ended with 93 vessel calls and 210,000 passengers. In the 2001 cruise season, 125 vessels made calls carrying 254,000 passengers. This unusually high number in 2001 was due partially to the closure of passenger facilities in the Port of New York for a period of time following September 11 and the diversion of ships to Boston. The Atlantic coast market is dominated by Florida ports, which handle over 90% of such passengers. In calendar year 2006, the Port of Boston ranked as the seventh largest cruise port on the U.S. Atlantic Coast with 3% of all cruise passengers.

Other Maritime Facilities. The Authority controls several facilities that are used for warehousing, or for importing, processing, or distributing bulk and other waterborne commodities such as road salt, cement and seafood. These facilities include the International Cargo Port-Boston, the 18-acre Medford Street Terminal, Mystic Piers 48, 49 and 50 (four acres), the North Jetty facility (40 acres) and the Fargo St. Terminal (16 acres). The Authority has entered into a long-term lease of the International Cargo Port-Boston pursuant to which this 200,000 square foot facility has been fully renovated by a private developer for use as an intermodal cargo facility. Dry bulk cargo imports such as salt and cement provide additional revenue to the Authority. In June 2005, the Authority designated Marine Terminal Development LLC to redevelop 30 acres at the Marine Terminal for a mix of cargo warehousing, seafood processing, cold storage and bulk cargo. The Development Agreement was executed in April 2007, and it is expected that the first two leases will be executed in fiscal year 2008.

World Trade Center Boston Development Area. In 1986, the renovation of Commonwealth Pier in South Boston into the World Trade Center Boston ("*WTCB*") was completed. This 850,000 square-foot structure includes office space, exhibition and conference space, product showrooms and offices. Across from the WTCB is a ten-acre parcel that has been developed by affiliates of WTCB and FMR Corporation. In May 1998, the Seaport Hotel (containing 427 rooms) and Garage (containing 1,250 spaces) opened as the centerpiece of a new complex that now also contains over one million square feet of office and support space, as well as retail space, and an additional 1,025 parking spaces. The complex includes the East Office Building, which opened in May 2000, and the West Office Building, which opened in June 2002. Both the East and West office buildings are fully leased in the office space areas. An extensively landscaped open space called Eastport Park was developed in conjunction with the East Office Building and "Podium Park" was completed as part of the West Office Building project. WTCB has also received permits to construct an additional 445,000 square foot office tower on an adjacent parcel south of the West Office Building and has held a development option with the Authority on this parcel for several years. Terms for extending this multi-year development option are currently being finalized between the Authority and WTCB.

Manulife/ John Hancock Office Building. Manulife Financial completed construction of its United States headquarters in 2004. Located at the intersection of Congress Street and D Street, the building contains approximately 480,000 square feet of Class 'A' office space, street level retail and 175 below-grade parking spaces. Manulife acquired John Hancock in 2005 and in 2006 the building was fully occupied with approximately 1,600 Manulife/Hancock employees.

Park Lane Seaport Apartments. Construction commenced in 2003 and was fully completed in 2006 on two residential buildings that together house 465 apartments (353 rental units and 112 condominium units) in a variety of configurations located along Northern Avenue between D Street and Congress Street. The project includes ground level restaurant spaces (three restaurants are leased and operating) and a 520-space below-grade parking garage serving both the apartments above and the adjacent Marriott hotel (now under construction). Currently, in one of the buildings

the apartments are fully leased and in the other approximately 65% of the apartments are leased with good leasing activity continuing.

Marriott Renaissance Hotel. Directly across Congress Street from the Manulife/Hancock building, a 471-room Marriott Renaissance hotel is under construction (by the Marriott Corporation) and is scheduled to open by the end of calendar year 2007. The hotel will offer a full package of four-star amenities including meeting rooms, ballroom, health club/spa, restaurant/lounge, etc. Parking for the hotel will be by valet and will be provided within the adjacent garage at the Park Lane Seaport apartments.

Boston Fish Pier. This South Boston facility provides 70,000 square feet of fish processing space and 80,000 square feet of commercial office space. The Exchange Conference Center at the head of the Boston Fish Pier was redeveloped by the Authority in 1996 and is operated as a small-scale meeting facility available for public use. Despite the presence of commercial uses on the Fish Pier, the Fish Pier remains the home of Boston's ten boat fishing fleet, and is expected to remain so in the foreseeable future.

Constitution Center. This facility, located in Charlestown, consists of 8.3 acres of land and 6.7 acres of water and includes approximately 160,000 square feet of office space and surface parking. The Authority has approved the development of an adjacent parcel which will contain a building with approximately 55,000 square feet of "mixed-use" space. Negotiations on the lease are presently underway.

Commonwealth Flats Development Area. In 2000, the Authority completed a Strategic Plan for the build out of about 6.8 million square feet of mixed-use (commercial and residential) development for this approximately 60 acre district in the area known as Commonwealth Flats. In 2001, the Authority completed a district-wide Environmental Impact Report that was certified by the Commonwealth for those projects not yet built or permitted. A district-wide infrastructure program for the Commonwealth Flats Development Area ("*CFDA*"), including the construction of new roadways, utilities and a public park on D Street, was completed in 2004. Development on several parcels is completed, under way or scheduled to commence by the end of 2007. Currently about 3.4 million square feet of development has been completed or is under construction. In 2005 the MBTA's Silver Line began rapid transit service to the South Boston Waterfront (and through to Logan Airport) with two stations located within Commonwealth Flats.

Core Block. In February 2004, the Authority selected the development team of Core Development Group, LLC, consisting of the John Drew Company, Urban Retail Properties Company and MAXX Private Investments LLC, for this approximately eight-acre site. The development team currently consists of the John Drew Company, MAXX Private Investments LLC and Vornado (a Real Estate Investment Trust). Located between the WTCB Development Area and the new Boston Convention and Exhibition Center, the Core Block benefits from the location of an MBTA Silver Line rapid transit station within its footprint. The proposed development, proposed to be named "Waterside Place," is a mixed-use development with approximately 1.5 million square feet of building area, including a retail mall, grocery store, residential condominiums, selective service hotel, a visitor center, and approximately 2,350 parking spaces. The project site spans over the Silver Line, the I-90 tunnel, the Massport Haul Road and the Track 61 railroad line. The Authority and the development team are currently coordinating the design and construction protocols with the MBTA and CA/T project staff. Ground lease negotiations are on-going, the Commonwealth development permitting process is fully underway and construction is expected to commence in the fall of 2007 or winter of 2008.

Parcel D-3. As part of the Core Block developer designation (see above), the Authority also designated the development team for an associated development parcel (D-3), which is directly across D Street from the Core Block. Proposed to be named "Waterside Crossing," this development is proposed to complement "Waterside Place" with a substantial mix of retail stores, structured parking and office or hotel facilities. The timing of the design and preparation of permitting documents of Parcel D-3 will follow closely behind "Waterside Place" with respect to negotiations with the Authority.

Parcel E. The Authority designated Cressett Harborside, LLC to undertake the redevelopment of this parcel, which consists of a pier and a single building along Northern Avenue, east of the Boston Fish Pier. The project includes demolition of the existing (vacant) building and pier and its pile system followed by the rebuilding of the pile system, the pier and two new buildings targeted for restaurants/retail uses with the possibility of a small amount of

professional offices. The project will also include a "harborwalk" along the pier for public use. The developer has initiated demolition of the existing building.

South Boston Seafood District. In July 1996, the Authority designated a minimum of eight acres at the Marine Terminal for the purpose of constructing several state-of-the-art seafood-processing facilities as part of a new seafood district. A private developer has constructed Harbor Seafood Center, a 65,000 square foot seafood processing facility, which opened in September 2001, as the first phase of this new district. This facility is fully occupied. In 2006, the ground lease interest was acquired by another private party. As part of that transaction, the Authority was relieved of a financial guarantee that existed in the original ground lease. The Legal Sea Foods Quality Control Center is also located within this district. Construction of this 75,000 square foot facility was completed in the fall of 2003. This facility, which serves as the headquarters of Legal Sea Foods, is privately financed.

East Boston Piers. As required by legislation, the Authority designed and constructed a park on Pier 4 and its backlands and has designed Phase II of the park. Known as "East Boston Piers Park," the Phase I park was constructed by the Authority at a cost of $14.9 million and opened in the summer of 1995. In July 1988, the Authority paid $5 million to the Commonwealth to assist in funding this project and to satisfy fully a contingent liability to reimburse the Commonwealth pursuant to the Enabling Act for certain costs incurred by the Commonwealth relating to the Port Properties prior to their acquisition by the Authority. The Authority spent over $2 million in fiscal years 2001 and 2002 to design Phase II of the park. The Authority expects that construction of Phase II will be funded by the Commonwealth.

East Boston Pier One and the Shipyard. The Authority designated The Roseland Property Company to redevelop East Boston Pier One (and backlands) into a residential development and to invest in and improve the East Boston Shipyard and Marina. Ground leases for the proposed development were executed in 2006. The Roseland Property Company commenced construction in early 2007 on approximately 550 units of housing (with a mix of apartments and condominiums), parking below the residential buildings, along with street level retail and community space. The developer is currently re-examining elements of its proposed design for the East Boston Pier One property and is engaged in a value engineering exercise that may result in proposed changes for the Authority's consideration. As part of this process, the Authority has agreed to allow the developer to delay certain performance and payment obligations. The developer is also obligated to invest up to $8 million in capital improvements in the East Boston Shipyard. Among other activities, the proposed plans add approximately 200 additional boat slips at Pier 5 adjacent to the 180 existing slips in the Marina.

CAPITAL PROGRAM

On February 14, 2007, the Members of the Authority approved the FY07-FY11 Capital Program. The FY07-FY11 Capital Program represents a comprehensive and coordinated capital improvement and financial master plan for all Authority facilities. The program was developed to be consistent with the Authority's goals of funding security initiatives and airfield operation enhancements, maximizing FAA and Transportation Security Administration ("*TSA*") grant receipts, securing and utilizing a $4.50 PFC, and avoiding increasing Airport rates and charges to levels that could lead to significant service reductions. The FY07-FY11 Capital Program includes forecasted total expenditures of $1.95 billion for ongoing projects and projects to be commenced during the five-year program period, including $960 million in Authority funded projects and $995 million in projects anticipated to be funded through third-party or non-recourse funding sources.

In 1995, the Authority embarked on a major capital program to repair, modernize and revitalize the physical plant at Logan Airport and to improve the infrastructure at each of the Authority's facilities. Continuing the efforts to renew Logan Airport and the Authority's other facilities, as mentioned above, the FY07-FY11 Capital Program allocates $960 million of Authority funding to important initiatives to address the current security challenges facing the aviation industry, to maintain and enhance the public airfield, to add significant improvements to the public parking and rental car facilities at the Airport, and to upgrade each of the Authority's facilities generally. At the same time, the Authority continues to strive to avoid or minimize adverse local and regional impacts associated with operations at the Airport and the Authority's other facilities. For Authority-funded projects in the FY07-FY11 Capital Program, 79.7% are allocated to Logan Airport, 1.9% to Hanscom Field, 9.9% to the Maritime Facilities, 4.8% to the Bridge and 3.7% for Authority-wide projects.

During fiscal year 2006, the Authority disbursed $311.9 million on its on-going capital program. Major projects substantially completed in fiscal year 2006 include the new Logan airfield lighting vault, upgrade of the fire alarm system at the Airport, the South Boston waterfront park and roads and the overlay of the upper level deck of the Tobin Bridge. In fiscal year 2006 work commenced on the Logan Wayfinding System, the new facilities maintenance building at the Airport, the soundproofing for the homes under the flight path of Runway 14/32, the Terminal B public space expansion including the replacement of the exterior sliding doors, a new sand storage building at Hanscom Field, new concrete runways for the container handling cranes at Conley Terminal and the overlay of the lower deck at the Bridge. Major on-going projects that are scheduled for completion in fiscal year 2007 or beyond at the Airport include Runway 14/32 and the Centerfield Taxiway project; the repair and expansion of the Central Parking Garage at the Airport, which includes completely rebuilding the three lower floors of that garage, renovating the next two floors, and adding three new levels to that structure; the International Gateway; the enhanced security program; residential soundproofing in nearby communities; and certain Terminal Area Roadway improvements.

The Authority-funded portion of the FY07-FY11 Capital Program is funded from a variety of sources, including Bond proceeds, grants, PFCs and pay-as-you-go capital. See the table captioned "Summary of Estimated Funding Sources and Capital Projects" below. In addition, the FY07-FY11 Capital Program includes certain large projects, notably the Consolidated Rental Car Facility and the Core Block Development in South Boston, which are anticipated to be funded from either non-recourse or third-party sources, such as special facilities revenue bonds. See "Logan Airport Improvements – Southwest Service Area Parking Garage and Consolidated Rental Car Facility" and "Other Improvements – Additional Third Party Development Ventures" below.

If federal grant receipts expected pursuant to the FAA Letter of Intent (the "*Airside LOI*") regarding funding for Runway 14/32 and other associated projects or from TSA relating to hold baggage screening improvements are delayed or cancelled, the Authority may issue additional Bonds to fund the airfield and security projects contained in the FY07-FY11 Capital Program. See "Logan Airport Improvements" below. See also "AVIATION INDUSTRY CONSIDERATIONS – Considerations Regarding Other Sources of Revenue." If significant changes were to occur in available amounts from other expected funding sources, or if the costs of certain projects were to increase significantly, the Authority would be required to adjust the timing or reduce the scope of individual proposed projects or the overall program, or both, to accommodate such changed circumstances. For example, in October 2001, as part of its financial recovery plan in response to the financial and operational implications of the events of September 11, the Authority postponed projects and reduced the capital program for fiscal years 2001 through 2006 from a six-year plan to a two-year plan. While projects that were under construction continued uninterrupted, many other projects were postponed. The two-year capital plan approved by the Authority in October 2001 for fiscal years 2002 and 2003 projected expenditures of $469.5 million, 37% below the previously approved spending level of $749 million for that same time period.

Many of the commitments within the Authority's capital plan, such as the International Gateway project, which has doubled the size of Terminal E, and Southwest Taxiway improvements, have already been authorized by the Authority and extend over several years. Nevertheless, when the Authority commences a project within its capital program, it is a separate "module" that the Authority approves individually along with a separate project budget. This permits the Authority to undertake the construction and financing of each of these additional projects independently of other capital projects, while retaining overall program coordination and integration. Particularly at Logan Airport, each new project is added to the rate base or is expected to generate revenue upon its completion. The Authority believes that the modular design of the capital program significantly increases its ability to make needed adjustments in capital spending levels.

The FY07-FY11 Capital Program includes the acquisition of roadway segments from the CA/T Project, the completion of the Authority's earlier capital program initiated in 1995 to repair, modernize and revitalize the physical plant at Logan Airport ("*Logan Modernization*"), significant capital improvements to Logan Airport's airfield, security enhancements and parking and rental car improvements at the Airport, residential soundproofing in the communities neighboring the Airport, enhancements to the Maritime Properties, Hanscom Field and the Bridge and the maintenance and renewal of its existing facilities, all as more fully described below.

Set forth in the following table is a summary of the estimated funding sources for the FY07-FY11 Capital Program and a summary of uses, showing capital projects by funding category. As shown in the table, following the issuance of the 2007 Bonds and the 2007 PFC Bonds, the Authority's financing plan assumes the sale of additional Bonds to fund $147.8 million for the construction of the Southwest Service Area parking garage and a $24.9 million payment for the Airport Roadway Acquisition from CA/T Project and $15.0 million for a new security corridor connecting Pier A of Terminal C to the main concourse. The table also shows $255.4 million for the Consolidated Rental Car Facility, which is currently planned to be funded with special facilities revenue bonds. No commitments will be made to construct these projects until the appropriate environmental approvals and business agreements are in place. The table also shows projects that have been or may be funded through other third-party or non-recourse funding sources.

SUMMARY OF ESTIMATED FUNDING SOURCES AND CAPITAL PROJECTS

FISCAL YEAR 2007 – FISCAL YEAR 2011
(in thousands)

Funding Sources	
Maintenance Reserve Fund	$ 253,811
Improvement and Extension Fund	241,254
PFCs pay-as-you-go	62,165
2007-B PFC Bond proceeds*	35,568
Commercial Paper	27,036
FAA Entitlement Grants	26,288
FAA Discretionary Grants	47,321
FAA Logan Soundproofing Grants	27,693
TSA Aviation Discretionary Grants	7,866
Other Grants	1,000
2005 Bond proceeds*	26,353
2007 Bond proceeds*	39,941
2009 Bond proceeds*	163,452
Third party or non-recourse financing	994,990
Total Funding Sources	$1,954,738
Projects Funded Primarily with Revenue Bonds	
Airport Roadway Acquisition from CA/T Project (1)	$ 50,000
Airfield & Security Projects (1)	14,841
Southwest Service Area Parking Garage	123,552
Consolidated Rental Car Facility (2)	255,402
Central Parking Garage Repairs and Expansion (3)	47,593
Projects Funded Primarily with PFC Bonds, PFCs and Grants	
Runway 14/32 and Associated Taxiways (3) (4)	35,427
Southwest Taxiway (4)	24,515
Runways 4L/22R and 4R/22L Improvements (3) (4)	6,436
Airfield Drainage and Perimeter Road Improvements	1,200
Taxiway D Extension	2,131
Centerfield Taxiway	52,208
Other Airfield Projects Funded with PFCs and Grants	10,394
Security Projects Funded with PFCs and Grants (3)	15,823
Residential Sound Insulation Program and Related Projects	41,753
International Gateway (Logan Modernization) (3)	40,645
Other Projects Funded Primarily with Authority Internally Generated Funds	
Other Security Projects in the Massport Security Program	62,099
Terminal B Parking Garage Structural Repairs and Lighting	20,650
Other Airfield Projects	18,026
Additional capital improvements for other Airport Projects	95,310
Capital Improvements for Maritime	73,670
Capital Improvements for Hanscom Field and the Tobin Bridge	15,002
Major maintenance all facilities	208,473
Projects Funded by Third Party Sources	
Core Block Development in South Boston (third party ventures) (5)	600,000
Additional third party development ventures	139,588
Total Capital Program	$1,954,738

*Does not include bond reserves, costs of issuance, capitalized interest or expenditures outside the FY2007-FY2011 time period.
(1) The Bond-funded portion will be financed with the 2007-A Bonds.
(2) Anticipated to be funded primarily with special facilities revenue bonds.
(3) Near completion.
(4) The Bond funded portion will be financed with the 2007-B PFC Bonds.
(5) See "PORT PROPERTIES – Core Block."

The table below summarizes the major projects and project groupings that comprise the FY07-FY11 Capital Program and includes budgeted costs, funded amounts, project status, actual and expected dates of commencement, expected dates of beneficial occupancy and anticipated funding sources. A description of the major projects that comprise the FY07-FY11 Capital Program follows the table.

MAJOR PROJECTS IN THE FY07–FY11 CAPITAL PROGRAM

Project	Actual/ Expected Cost[(1)]	Funded Amount[(2)]	Project Status	Actual/Expected Commencement of Construction	Expected Date of Beneficial Occupancy	Actual/ Anticipated Funding Sources
Airport Roadway Acquisition from CA/T Project	$365 million	$340 million	Most Segments in Use	December 1997	December 2007[(3)]	1997 Bonds; 1998 Bonds; 1999 Bonds; 2003 Bonds; 2005 Bonds; 2007 Bonds; Additional Bonds
Runway 14/32 and Associated Taxiways	$87.5 million	$87.5 million	In Use	August 2004	December 2006	2003 Bonds; AIP Grants; PFCs; 2007 PFC Bonds; 2007 Bonds
Additional Airfield Improvements	$92.1 million	$29.9 million	In Construction	April 2007	December 2012	2003 Bonds; AIP Grants; PFCs; 2007 PFC Bonds
Major Airfield Maintenance	$69.1 million	$69.1 million	In Construction	April 2004	May 2008	AIP Grants; PFCs; 2007 PFC Bonds; Maintenance Reserve Fund; Improvement and Extension Fund
Airport Security Projects	$262.5 million	$262.5 million	In Construction	July 2002	May 2011	AIP Grants; PFCs; Maintenance Reserve Fund; Improvement and Extension Fund
Residential Sound Insulation Program and Related Projects	$75.6 million	$73.2 million	In Construction	July 2001	March 2010	AIP Grants; PFCs; Improvement and Extension Fund
Southwest Service Area Parking Garage and Consolidated Rental Car Facility	$453 million	$4.5 million	In Planning Phase	July 2009	December 2011	Additional Bonds; Special Facilities Revenue Bonds; Improvement and Extension Fund; CFCs [(4)]
Central Parking Garage Repairs & Expansion	$217.5 million	$217.5 million	In Use	May 2004	February 2007	1999 Bonds; 2003 Bonds; 2005 Bonds; Improvement and Extension Fund
International Gateway (Logan Modernization)[(5)]	$419.5 million	$419.5 million	South Addition Opened May 2003/Renovation of Older Portion of Terminal Nearing Completion	August 1998	July 2007	1999 Bonds; 2005 Bonds; 1999 PFC Bonds; PFCs, commercial paper

(1) Includes costs incurred prior and subsequent to, and contained in the FY07-FY11 Capital Program.
(2) Funded amount is comprised of proceeds of the 2007 Bonds, proceeds of previously issued Bonds, proceeds of the 1999 PFC Bonds, and funds from the Improvement and Extension Fund, the Maintenance Reserve Fund and the PFC Capital Fund that are budgeted to be spent on the major projects by June 30, 2011.
(3) While construction is expected to be completed by December 2007, the Authority does not expect to take title to the roadway until the end of calendar year 2008.
(4) See the discussion of CFCs under the heading "Southwest Service Area Parking Garage and Consolidated Rental Car Facility" below.
(5) Does not include $43.9 million in project costs for the hold baggage screening system in Terminal E which was part of another project.

Logan Airport Improvements

Airport Roadway Acquisition from CA/T Project. Pursuant to state legislation enacted in 1997 and amended in 2000, the Authority is required to acquire roadway segments providing Airport access to and from the Ted Williams Tunnel in exchange for payments of $365 million. Pursuant to the Roadway Transfer Agreement, the Authority will acquire certain roadway assets that exclusively serve Logan Airport or provide enhanced access to or egress from the Airport in exchange for installment payments totaling $365 million. Pursuant to the Roadway Transfer Agreement, payments of $12.1 million, $30.7 million, $52.2 million, $65 million, $104.9 million and $50 million were made for fiscal years 1998, 1999, 2000, 2001, 2003 and 2005, respectively, for roadway assets that are in service. The remaining $50 million payment is included in the FY07-FY11 Capital Program. For purposes of the FY07-FY11 Capital Program, the Authority has assumed that $25.1 million of this remaining payment will be made in fiscal year 2007 from the proceeds of the 2007-A Bonds. Discussions continue with the Commonwealth as to the terms and timing of the payment of the remaining $24.9 million for roadway assets to which the Authority will take title.

Runway 14/32 and Associated Taxiways. The FY07-FY11 Capital Program includes the completion of the construction of Runway 14/32, which was commissioned in November 2006 and is in use. Runway 14/32 and its associated taxiways, which link the runway to the airfield's previously existing taxiway system, were designed to separate turboprop and regional jet aircraft operations from larger jets in order to alleviate the reduction in normal airfield capacity that occurs under certain wind and weather conditions. Due to the Airport's geographic location, weather and prevailing wind patterns, and a high level of regional carrier operations, the Airport historically has ranked among the lowest performing major U.S. airports in aircraft operational delay. Runway 14/32 has alleviated a portion of this congestion. Pursuant to the Airside LOI, the FAA has approved $90.8 million in Airport Improvement Program ("*AIP*") funding for Runway 14/32, the Southwest Taxiway and the extension of Taxiway D and has also approved the use of PFC revenues to match the AIP grants. See "Funding Sources – Federal Grants" and "Funding Sources – PFCs" below. Approximately $8.1 million of costs that are ineligible for grants and PFCs will be funded from the proceeds of the 2007-A Bonds. The approved project budget for Runway 14/32 is $99.7 million. However, due to lower than expected construction costs, the Authority believes that the final cost of the project will not exceed $87.5 million, of which $75.7 million or 87% was expended through December 31, 2006.

Additional Airfield Improvements. The FY07-FY11 Capital Program includes Additional Airfield Improvements which comprise the Southwest Taxiway project, Taxiway D Extension and the Centerfield Taxiway. These projects are also expected to ease aircraft operational delays. The Authority received environmental approval for the Southwest Taxiway project and associated lighting, signage and drainage improvements, and the 2,000 foot extension to Taxiway D from Taxiway C to Taxiway E at Runway 4R/22L at the same time as Runway 14/32. Pursuant to the Airside LOI, AIP grants are expected to fund 75% of the eligible costs of these projects and PFC Bonds and PFCs will be used for the remaining 25% of eligible costs. The approved project budget for the Southwest Taxiway project is $25.3 million of which $2.0 million had been spent as of December 31, 2006. The approved project budget for the Taxiway D Extension is $13.3 million of which $0.6 million had been spent as of December 31, 2006.

The Centerfield Taxiway has been designed to run between and parallel to Runways 4L/22R and 4R/22L. The Authority expects that this will increase the safety and efficiency of the airfield and reduce the possibility of runway incursions. After extensive environmental studies and public comment, the Massachusetts Secretary of Environmental Affairs issued a certificate on June 15, 2001 determining that the Final Environmental Impact Report for the Airside Capacity Improvements adequately and properly complied with the Massachusetts Environmental Policy Act ("*MEPA*"). On August 2, 2002, the FAA issued a Record of Decision ("*ROD*") that mandated further study on the Centerfield Taxiway. Such studies have been completed and a ROD was received from the FAA on April 20, 2007. The budget for this project is $53.5 million of which $3.1 million had been spent as of December 31, 2006. The Authority is permitted to collect PFCs to fund a portion of this project. Later this year, the Authority expects to seek the ability to use PFCs for this project and will also apply for discretionary AIP grants to fund the balance of this project.

Major Airfield Maintenance. A variety of other important airfield projects are included in the FY07-FY11 Capital Plan. PFC Bonds and AIP grants are expected to be used to fund the overlay of Runways 4L/22R and 4R/22L ($25.3 million), as well as funding improvements to the emergency arresting surface at the end of Runway 4L ($3.4 million) and various improvements to the airfield drainage and perimeter road ($1.2 million). Pay-as-you-go PFCs are expected to be used to reconstruct the alleyways at Terminals C and E ($13.9 million) and the lighting system for

Runway 4R/22L ($5.1 million). Internally-generated funds are expected to be used to fund improvements to the safety ends for Runways 33L and 22R ($14 million).

Airport Security Projects. Well before the events of September 11, the Authority hired outside experts to suggest ways to improve security at the Airport and other Authority facilities. The FY07-FY11 Capital Program budgets $5.9 million of the 2007-A Bond proceeds, $42.6 million of internally-generated funds, $6 million of grant funding and $15.8 million in PFCs for such projects at the Airport, which complement the $146 million for hold baggage terminal modifications substantially completed in 2003, which were entirely paid for with grants and PFCs. The security enhancement program at the Airport includes a new access control system ($29.3 million) for those persons authorized access to the secure areas of the terminals and the airfield, vehicle intrusion protection at the terminals and other buildings ($15.4 million), improvements to the bag belts that deliver bags to the hold baggage screeners ($8 million), a new fire boat to improve perimeter security ($6.1 million), air cargo security improvements ($3 million) and the increased use of cameras and other measures designed to increase security throughout the Airport ($12.8 million). The FY07-FY11 Capital also includes investments designed to increase security at the Authority's other facilities.

Residential Sound Insulation Program and Related Projects. The Authority has implemented its Residential Sound Insulation Program in certain communities neighboring the Airport. This program is complemented by periodic flight studies and noise monitoring projects. Under the sound insulation program, homes and schools that are located within the noise exposure area approved by the FAA are eligible for soundproofing. The Authority began this program in 1986. As of December 31, 2006, the Authority and FAA had spent $153.3 million and had treated approximately 4,800 homes containing approximately 9,900 dwelling units and 37 schools. The $75.6 million of residential sound insulation funded by the FY07-FY11 Capital Program includes work on the on-going program as well as soundproofing within the City of Chelsea (under the Noise Mitigation Program) made necessary by and undertaken as mitigation in conjunction with the construction of Runway 14/32. The costs of the Authority's soundproofing programs have in the past been funded primarily from federal AIP grants. The Authority anticipates the funding for the remaining work to be eligible for up to 80% federal funding under the AIP. Any costs not funded by AIP grants are expected to be funded from PFCs. As of December 31, 2006, the Authority has been awarded approximately $142 million in noise grants for the sound insulation program. See "AVIATION INDUSTRY CONSIDERATIONS."

Southwest Service Area Parking Garage and Consolidated Rental Car Facility. The Authority has begun the planning and environmental permitting for the redevelopment of the southwest service area. The program includes the construction of a public parking garage with up to 3,000 parking spaces and the construction of a consolidated rental car facility with 3,000 ready/return spaces, a customer service center, seven acres of quick turn around fueling and cleaning facilities, nine acres of on-site rental car storage, along with relocated bus, taxi and limo pools and associated utility and roadway upgrades. It is expected that a common bus fleet of clean fuel vehicles will serve both the parking and the rental car patrons.

The Authority is evaluating a full build option currently estimated to cost $453 million, and a phased option for construction. The environmental work is expected to be completed in fiscal year 2009. Prior to that time, the Authority expects to levy a daily Customer Facility Charge ("*CFC*") on rental car patrons. That fee will be used to finance all or part of the Consolidated Rental Car Facility and the bus purchases. The CFC may be used to provide security for special facility financing, or the CFC may be included in Logan Airport's Revenues and used to support Authority revenue bonds. The Authority will also pursue a federal Transportation Infrastructure and Finance and Innovation Act ("*TIFIA*") loan as part of the funding for this project. As the project is in its early planning stages, there can be no assurances regarding the outcome of the environmental process, the negotiations with the rental car companies or the approval for TIFIA funding.

Central Parking Garage Repairs and Expansion. This project includes major repairs to the older half of the Central Parking structure (formerly, the "*Central Garage*") as well as the addition of three new floors with 2,800 additional spaces. The plan includes improved pedestrian circulation between the garage and the Terminals, between the former Central Garage and the new West Garage, and improved vertical circulation between all levels of the garage. The total budget for this work is $217.5 million. Construction started in the spring of 2004, and the first phase, including 1,400 new spaces, opened in March 2006. The second phase, including another 1,400 spaces, opened in February 2007. The approved budget is $217.5 million, of which $211.5 million or 97% was expended through December 31, 2006.

International Gateway. The International Gateway project, part of Logan Modernization, consists of renovating approximately 170,000 square feet of and adding approximately 410,000 square feet to Terminal E. The project has provided for ticketing, U.S. Customs and Immigration facilities, other federal inspection services facilities and concessions. Construction commenced in August 1998. As part of the project, a new double-decked roadway system has been constructed, which has greatly reduced curb and roadway congestion at Terminal E. The South Addition, including the new ticketing areas and new roadway system and curbs, was placed in service in May 2003. The remainder of the International Gateway project is expected to be completed in July 2007. The project is being financed principally (over 80%) from PFCs. The approved project budget is $419.5 million (not including approximately $44 million in hold baggage screening capital costs), of which $385.8 million, or 92%, was expended through December 31, 2006.

Other Airport Projects. The remainder of the FY07-FY11 Capital Program relating to the Airport includes a variety of airside, landside and mitigation projects including the following projects and their estimated costs: terminal area roadway maintenance ($34.3 million), Terminal B parking garage repairs ($20.7 million), Terminal C Connector to Pier A ($15 million), Wayfinding signage ($14.6 million), maintenance garage expansion ($14 million), Terminal B, C and E heating, ventilation and air conditioning upgrades ($12.9 million), State Police Headquarters ($12.9 million), the replacement of the pumping station ($9.7 million), and numerous other improvement projects totaling approximately $146.5 million.

Other Improvements

Maritime Improvements. The FY07-FY11 Capital Program includes $22.1 million to purchase rubber tire gantry cranes and to install concrete runways for those cranes in order to increase the capacity and efficiency of Conley Terminal. The FY07-FY11 Capital Program also includes $40 million to purchase ship cranes and to make various other improvements to the backland at Conley Terminal. As part of the Authority's plans to revitalize its underutilized and obsolete port properties in order to offset the costs of the maritime operations, the FY07-FY11 Capital Program funds a variety of infrastructure improvements in South Boston that are designed to facilitate private development and, in turn, to increase the Authority's revenues. Such projects include repairs to the Commonwealth Pier foundation ($7 million), roadway enhancements to Seaport Boulevard ($1 million), and the construction the Transitway Connector Road ($923,000).

Bridge Improvements. From fiscal year 2007 through fiscal year 2011, the Authority expects to undertake capital renovations and improvements to the Bridge, including re-decking and painting, at an estimated cost of up to $46.8 million.

Third Party Development Ventures. As described above, the Authority expects that approximately $995 million of third party funds will be expended for capital projects on Authority property in the period ending June 30, 2011. These projects include the Core Block development, which is expected to encompass an approximately $600 million retail, residential and parking development on Authority property abutting and on air rights over the Ted Williams Tunnel, and the Consolidated Rental Car Facility expected to be financed with CFCs in the amount of $255 million. Other major third party commitments to construct and finance improvements to the Authority's Projects include the use of $50 million for the redevelopment of the Marine Terminal in South Boston, $17 million in upgraded fuel systems by BOSFUEL at Logan Airport, $20.0 million for the Liberty Mutual Hangar at Hanscom Field, and an additional $40.0 million for general aviation hangars at Hanscom Field. See "OTHER OBLIGATIONS."

Funding Sources

The various projects listed in the FY07-FY11 Capital Plan have been and will be financed through the issuance of Bonds, commercial paper, PFC Bonds and special facilities revenue bonds, the application of PFCs, federal grants, private capital and from cash flow from operations. In addition, the Authority's commercial paper program provides interim funding for certain projects. See "MANAGEMENT'S DISCUSSION OF FORECAST ASSUMPTIONS – Debt Service and Coverage." As of December 31, 2006, the Authority had the following approximate amounts available for projects included in FY07-FY11 Capital Program: $7.2 million of the 2005-B Bond proceeds, $145.0 million of cash from operations and $4.3 million of pay-as-you-go PFCs.

Bond Proceeds. The proceeds of the 2007-A Bonds are expected to be used by the Authority to fund improvements at the Airport as shown in the table and described below:

IMPROVEMENTS EXPECTED TO BE FINANCED WITH
2007-A BOND PROCEEDS
(in thousands)

Airport Roadway Acquisition and Improvements	
Airport Roadway Acquisition	$25,100
Runway 14/32 and Associated Taxiways	8,065
Southwest Service Area Edge Buffer	1,322
Navy Fuel Pier Edge Buffer	2,400
Boundary Security Infrastructure	10,275
Total	$47,162

The amounts set forth in the foregoing table may be reallocated by the Authority in accordance with the 1978 Trust Agreement and the 2007 Bond Resolution.

Passenger Facility Charges. On April 23, 1993, the Authority submitted an application (the "*1993 PFC Application*") to the FAA for authority to impose and use a $3.00 PFC at the Airport. On August 24, 1993, the FAA published its Record of Decision (the "*1993 Approval*") regarding the 1993 PFC Application. Pursuant to the 1993 Approval, the net amount approved for PFC collection was $598.8 million, with a projected PFC charge expiration date of October 1, 2011.

On September 19, 1996, the Authority submitted an application (the "*1996 PFC Application*") to the FAA for authority to use PFCs and impose and use a PFC at the Airport. Along with the 1996 PFC Application, the Authority submitted a concurrent application to amend its 1993 PFC Application (the "*1993 PFC Program Amendment*"). On January 27, 1997, the FAA published two Records of Decision regarding the 1996 PFC Application and the 1993 PFC Program Amendment (collectively, the "*1997 Approval*"). Pursuant to the 1997 Approval, the net amount approved for PFC collection was $631.8 million, with a projected PFC charge expiration date of September 1, 2012.

On September 26, 1997, the Authority submitted an application (the "*1997 PFC Application*") to the FAA for authority to use PFCs to fund the PFC-eligible portions of the International Gateway Project. On February 5, 1998, the FAA published a Record of Decision (the "*1998 Approval*") regarding the 1997 PFC Application. Pursuant to the 1998 Approval, the net amount approved for PFC collection was $927.4 million, with a projected PFC charge expiration date of October 1, 2017.

On July 29, 2005, the Authority submitted an application (the "*2005 PFC Application Amendment*") to the FAA for authority to impose and use a $4.50 PFC at the Airport and to amend the PFC use amounts for the PFC-eligible portions of the International Gateway Project and other PFC-approved projects. On September 2, 2005, the FAA published a Final Agency Decision (the "*2005 Approval*") regarding the 2005 PFC Application Amendment. Pursuant to the 2005 Approval, the FAA authorized the Authority to impose and use a $4.50 PFC at the Airport effective October 1, 2005. The net amount approved for PFC collection was $865.1 million, with a projected PFC charge expiration date of February 1, 2011.

On December 6, 2005, the Authority submitted an application (the "*2006 PFC Application*") to the FAA for authority to impose and use a $4.50 PFC at the Airport for additional capital projects. On April 20, 2006, the FAA published a Final Agency Decision (the "*2006 Approval*") regarding the 2006 PFC Application. Pursuant to the 2006 Approval, the FAA extended the Authority's ability to impose a $4.50 PFC at the Airport. Under the 2006 Approval, the net amount approved for PFC collection was $995.0 million, with a projected PFC charge expiration date of February 1, 2016.

In accordance with the 1978 Trust Agreement, the proceeds of PFCs have been excluded from the Revenues securing the Bonds. See "SECURITY FOR THE 2007 BONDS – Passenger Facility Charges." In the event that PFC

revenues and other funding sources are inadequate to meet anticipated project costs, the Authority would look for other funding sources.

Federal Grants. The Authority annually receives grants from the FAA pursuant to the AIP. These grants generally fall into two categories: entitlement grants, which are awarded based upon the number of passengers enplaned at the Airport; and discretionary grants, which are awarded at the discretion of the FAA based upon specified criteria, including a cost-benefit analysis. Following September 11, the FAA also made available a special type of discretionary grant for security projects, as authorized by the federal Aviation and Transportation Security Act ("*ATSA*") enacted in 2001. Similar to many federal grant-in-aid programs, AIP grants are reimbursement grants. Accordingly, the Authority must expend its own cash to fund an authorized project and then submit invoices to the FAA for reimbursement of such costs pursuant to the terms of the grant. Thus, while grants may be awarded in one fiscal year, grant funds may be received over a period of several subsequent fiscal years. For a description of the AIP program, see "AVIATION INDUSTRY CONSIDERATIONS – Considerations Regarding Other Sources of Revenue – Federal Grants-in-Aid."

The Authority will continue its practice of fully utilizing the AIP entitlement grants that are awarded to it to maintain and improve the Airport and Hanscom Field, and of aggressively seeking FAA discretionary grants for soundproofing and runway safety improvements. In April 2004, the Authority received approval from the FAA in its Airside LOI for $90.8 million of AIP entitlement and discretionary funding for Runway 14/32 and related airfield enhancements. Under the Airside LOI, the Authority secured a $15.0 million grant in federal fiscal year 2005 and a $13.6 million grant in federal fiscal year 2006. In June 2003, the Authority signed a Memorandum of Understanding with the TSA for $87.0 million to fund a portion of the cost of the infrastructure improvements at the Logan Airport terminals to accommodate the TSA's screening of hold baggage. However, the Authority's past experience with respect to receipt of discretionary grants is no assurance that additional grants will be funded by the FAA or the TSA in the future.

The chart below sets forth the amount and type of AIP and TSA grants awarded to the Authority in federal fiscal years 2002 through 2007.

Federal Grant Authorizations for Capital Construction (1)

Federal Fiscal Year	2002	2003	2004	2005	2006	2007
FAA Entitlement (Airfield)	$10,345,694	$10,250,050	$9,239,851	$8,030,000	$7,030,000	$7,030,000
FAA Discretionary (Airfield - LOI)	0	0	0	7,000,000	6,580,000	6,620,000
Subtotal - Major Airfield Projects	10,345,694	10,250,050	9,239,851	15,030,000	13,610,000	13,650,000
FAA Discretionary (Other Airfield)				4,164,428		
FAA Discretionary (Soundproofing, Noise, etc.)	10,097,001	12,500,000	13,112,023	12,000,000	4,263,335	0
FAA Discretionary (Security)	30,000,000	0	0	0	0	0
TSA - Hold Baggage Screening	0	29,000,000	29,000,000	29,000,000	0	0
TSA - Other Security	0	0	998,000	1,106,369	0	0
Total	$50,442,695	$51,750,050	$52,349,874	$57,136,369	$17,873,335	$13,650,000

(1) Grant authorizations are actual for fiscal year 2002 through fiscal year 2006 and forecast for fiscal year 2007.

Other Funding Sources. In developing the FY07-FY11 Capital Program, the Authority made an exhaustive review of funding sources available to the Authority for such purposes. The FY07-FY11 Capital Program has been carefully tailored to be achievable within the resources anticipated to be available to the Authority at relevant times, including the capacity of users of the facilities of the Authority to bear additional charges. Moreover, the Authority is expending considerable efforts to assure that program costs are predictable and controlled. Should there occur any significant increases in the costs of projects included in the FY07-FY11 Capital Program, whether due to cost overruns or other financial obligations not now contemplated, or should anticipated resources fail to materialize on schedule, resources available to the Authority may be inadequate to accomplish all objectives of the FY07-FY11 Capital Program. If so, the Authority would be required to reduce or delay components of the FY07-FY11 Capital Program. In that event, the selection of projects to be reduced or delayed will depend on circumstances in existence at the time, including relative stages of development, relative economic importance to the activities of the Authority, and degrees of transferability of project funding sources. In addition, if federal grant receipts expected pursuant to the Airside LOI or TSA grants related to hold baggage screening improvements are delayed or cancelled, the Authority may issue additional Bonds to fund the airfield and security projects contained in the FY07-FY11 Capital Program.

AUTHORITY REVENUES

The Authority operates on a consolidated basis; all Revenues generated by each of the Authority's Projects are pooled to pay the Authority's Operating Expenses and pledged to support all of the Bonds on a parity basis. Under federal law, the Authority is one of the few "grandfathered" consolidated port authorities permitted to apply revenues generated at an airport owned by the Authority to support other operations of the Authority. See "AVIATION INDUSTRY CONSIDERATIONS – Federal Grants-in-Aid." The Authority generates Revenues from each of its Projects, as described below, and each of the Airport and the Port Properties has several lines of business that generate revenue streams.

Airport Properties Revenues

Revenues to the Authority from Airport operations consist of landing fees, terminal building rental rates and fees, cargo building rents, payments made by automobile rental companies, parking fees, concessions and other payments, including Revenues generated by operations at Hanscom Field.

Consistent with federal law, landing fees and terminal building charges, including certain passenger fees, are established on a "compensatory basis," that is, set at levels calculated to compensate the Authority for the actual direct and indirect costs of providing those services and facilities to users, principally the airlines. (However, terminal concession leases generally provide that rentals are established based upon a percentage of revenues generated, with a

minimum annual guarantee, rather than pursuant to a compensatory method.) Such costs include the direct cost of such facilities, including terminals, runways and aprons, and the allocable portion of indirect costs of capital improvements serving the entire Airport, such as Airport roadways (including roadways to be acquired pursuant to the Roadway Transfer Agreement). The Authority has no agreements which require it to obtain "majority-in-interest" approvals from airlines for its operating or capital expenditures. Pursuant to federal law, landing fees and other aeronautical charges must be reasonable. The Authority believes that its rate-setting methodology is reasonable and consistent with federal law. However, there can be no assurance that such methodology will not be challenged and, if a judgment is rendered against the Authority, there can be no assurance that rates and charges paid by aeronautical users of the Airport will not be reduced. For a discussion of the federal laws and regulations affecting the Authority's Airport rates and charges, see "AVIATION INDUSTRY CONSIDERATIONS – Federal Law Affecting Airport Rates and Charges."

The Authority establishes landing fee rates for use of the airfield at levels calculated to recover the direct and indirect costs of providing common use landing field facilities and related services, based on projected aircraft landed weights for each year. Any variance from these projections is calculated after the fiscal year ends, and the adjustment is either paid to or invoiced to the air carriers and other users, although the Authority may adjust the landing fee during the fiscal year in order to reduce any variance that would be due.

Each fiscal year the Authority also establishes terminal building rental rates and fees for all of the Terminals, also on a compensatory basis. See "AIRPORT PROPERTIES – Airport Facilities – Lease Arrangements for Terminal Facilities." Similar to the manner in which the landing fee is handled (as described above), any variance from projected costs is calculated after the fiscal year ends, and the adjustment is either paid to or invoiced to the air carriers, although the Authority may adjust the terminal rental rates during the fiscal year in order to reduce any variance that would be due. In addition, leases with certain carriers that are obligors of special facilities revenue bonds issued by the Authority and secured by a pledge of certain lease revenues also provide for additional rent in an amount at least sufficient to pay the debt service on such bonds. See "OTHER OBLIGATIONS – Special Facilities Revenue Bonds."

Other Authority revenues generated at the Airport include parking fees, which are generated according to parking rates set by the Authority, rents and other amounts paid by concessionaires, rental car companies and cargo facility operations, which are set by negotiation or bid. The Authority has been given authority by the FAA to impose and use PFCs as authorized by federal legislation. The revenues from PFCs have been, and will be, dedicated to certain capital projects. See "CAPITAL PROGRAM – Funding Sources – Passenger Facility Charges."

Port Properties Revenues

Revenues from the Port Properties are derived from several different sources, reflecting the diverse business activities at the Authority's maritime terminals. At Moran Terminal and Mystic Pier No. 1, which are leased to Boston Autoport LLC, the tenant pays a fixed rent, plus a percentage of sublease revenues. The tenant is also required to pay rent based upon the volume of automobiles, if any, processed at the facility. At Conley Terminal, which is operated by the Authority, the Authority collects fees from shipping lines for loading and unloading containers and for related services. The Authority also collects dockage and wharfage fees from the vessels. At the Black Falcon Cruise Terminal, the Authority charges per passenger use fees, as well as dockage, water and other utility charges.

The Authority also collects dockage and tonnage fees for bulk cargoes (most particularly road salt and cement products), ground lease rentals, and building rentals at the various associated office and warehouse buildings included in the Port Properties. Finally, the Authority realizes revenues from the building or facility rental or ground rental of the various properties it owns in East and South Boston and Charlestown.

Bridge Revenues

The Authority's revenues from the Bridge are derived from tolls imposed on all vehicles traveling southbound on the Bridge to downtown Boston. Tolls for round-trip passage by passenger cars across the Bridge were increased April 3, 2004 from $2.00 to $3.00, with a $0.50 discount for users of the "FastLane" electronic toll collection system (except for certain residents of Chelsea and Charlestown holding commuter passes, who pay a toll of $0.30). Tolls for other vehicle categories were increased proportionately, and range from $3.00 to $7.00, or $1.00 per axle in excess of two axles.

Investment Income

The Authority also derives income from the investment of the balances in the Operating Fund, the Maintenance Reserve Fund, the Improvement and Extension Fund, the Capital Budget Fund or Account, and the Reserve and Bond Service Accounts in the Interest and Sinking Fund. See "GENERAL OPERATIONAL FACTORS – Investment Policy."

SELECTED FINANCIAL DATA

The table on page 48 reflects historical Operating Results and Debt Service Coverage for the five most recent fiscal years and the six-month periods ended December 31, 2005 and 2006, prepared in accordance with accounting principles required by the 1978 Trust Agreement. Information for each of the five fiscal years is derived from the Authority's financial statements for the respective fiscal years. Financial statements of the Authority for fiscal year 2006 and comparative data for fiscal years 2004 and 2005, together with the report thereon of PricewaterhouseCoopers LLP, independent auditors, are included in APPENDIX A. Information for the six-month periods ended December 31, 2005 and 2006 under the caption "Historical Operating Results and Debt Service Coverage" is derived from the financial records of the Authority and has not been audited or reviewed by PricewaterhouseCoopers LLP.

The table on page 49 reflects forecasted Operating Results and Debt Service Coverage for fiscal year 2007 through fiscal year 2011, prepared in accordance with accounting principles required by the 1978 Trust Agreement. The prospective financial information included in this Official Statement has been prepared by and is the responsibility of the Authority's management. PricewaterhouseCoopers LLP has neither examined nor compiled the accompanying "Forecasted Operating Results and Debt Service Coverage," and accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto. The PricewaterhouseCoopers LLP report included in APPENDIX A to this Official Statement relates to the Authority's historical financial information. It does not extend to the prospective financial information and should not be read to do so. The prospective financial information was prepared by the Authority in accordance with accounting principles required by the 1978 Trust Agreement in order to show forecasted debt service coverage; such information was not prepared with a view toward compliance with the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information.

The following tables show the calculation of Annual Debt Service Coverage of the Authority, as provided under the 1978 Trust Agreement, which equals the ratio of the Net Revenues of the Authority to the Annual Debt Service for such year. "*Net Revenues*" is defined in the 1978 Trust Agreement as the excess of Revenues over Operating Expenses; provided that for the purpose of the calculations, proceeds of PFCs have been excluded from Revenues because such proceeds have been excluded from Revenues under the 1978 Trust Agreement. See "SECURITY FOR THE 2007 BONDS – Passenger Facility Charges." As used in the tables, "*Annual Debt Service*" is equal to the "Principal and Interest Requirements" on Bonds outstanding for the applicable fiscal year, less the capitalized interest paid from the applicable Project Fund. See APPENDIX D – Summary of Certain Provisions of the 1978 Trust Agreement – "Certain Definitions." The calculation of Revenues, Operating Expenses, and Annual Debt Service under the caption "Forecasted Operating Results and Debt Service Coverage" is based upon certain assumptions described below. See "MANAGEMENT'S DISCUSSION OF FORECAST ASSUMPTIONS." While the Authority believes that the assumptions made are reasonable, it makes no representation that the conditions assumed will in fact occur. To the extent that actual future conditions differ from those assumed or from the information on which the assumptions are based, the actual operating results will vary from those forecast, and such variations may be material.

HISTORICAL OPERATING RESULTS AND DEBT SERVICE COVERAGE
UNDER THE 1978 TRUST AGREEMENT
fiscal year ended June 30
(in thousands)

	2002	2003	2004	2005	2006	6 Mos Ended 12/31/05	6 Mos Ended 12/31/06
Revenues:							
Airport Properties - Logan							
Landing Fees	$ 49,656	$68,969	$ 75,050	$ 69,929	$ 76,743	$ 36,871	$ 42,600
Parking Fees	64,007	75,381	88,169	93,014	92,324	43,752	44,297
Utility Fees	13,731	13,577	12,407	15,696	21,690	9,908	14,935
Terminal Rentals	41,771	47,109	66,196	85,843	102,967	51,707	52,743
Non-Terminal Building and Ground Rentals	29,851	30,269	31,905	36,133	34,699	17,599	17,353
Concessions	41,371	45,949	43,870	48,195	51,948	27,543	28,638
Other	15,275	14,912	17,501	19,485	16,232	6,816	10,115
	255,662	296,166	335,098	368,295	396,603	194,196	210,681
Airport Properties - Hanscom	4,949	4,093	5,646	6,219	7,167	3,309	4,216
Total Airport Properties	260,611	300,259	340,744	374,514	403,770	197,505	214,898
Port Properties							
Maritime Operations	31,562	35,056	35,687	42,247	46,588	23,582	24,090
Business Development	7,019	8,055	-	-	-	-	-
Maritime Real Estate	-	-	13,931	15,947	16,394	7,827	9,163
	38,581	43,111	49,618	58,194	62,982	31,409	33,253
Bridge	17,436	22,346	24,029	27,550	28,273	14,359	16,226
Total Operating Revenue	316,628	365,716	414,391	460,258	495,025	243,273	264,377
Investment Income (1)	12,959	7,962	6,568	9,488	15,346	6,777	10,163
Total Revenues	329,587	373,678	420,959	469,746	510,371	250,050	274,539
Operating Expenses (2):							
Airport Properties							
Logan	150,610	163,779	179,970	198,380	218,674	106,670	113,964
Hanscom	3,910	4,642	4,952	6,468	7,096	3,491	3,670
	154,520	168,421	184,922	204,848	225,770	110,161	117,634
Port Properties							
Maritime Operations	34,054	40,067	37,589	42,006	45,151	21,951	23,484
Business Development	7,041	6,620	-	-	-	-	-
Maritime Real Estate	-	-	11,198	13,195	13,464	6,459	6,593
	41,095	46,687	48,787	55,201	58,615	28,410	30,077
Bridge	7,852	8,711	9,572	9,655	9,533	4,745	5,213
Total Operating Expenses	203,467	223,819	243,281	269,704	293,918	143,316	152,924
Net Revenues	$126,120	$149,859	$177,678	$ 200,042	$216,453	$106,734	$121,615
Annual Debt Service	$ 69,711	$ 74,089	$ 80,696	$ 76,806	$ 92,934	$ 45,016	$ 48,601
Annual Debt Service Coverage	1.81	2.02	2.20	2.60	2.33	2.37	2.50

(1) Excludes investment income earned by and deposited into Construction and PFC Funds.
(2) Includes allocation of all operating expenses related to Authority General Administration.

FORECASTED OPERATING RESULTS AND DEBT SERVICE COVERAGE
UNDER THE 1978 TRUST AGREEMENT
fiscal year ended June 30
(in thousands)

The forecasts presented in this table were prepared by the Authority on the basis of assumptions believed by it to be reasonable. See "MANAGEMENT'S DISCUSSION OF FORECAST ASSUMPTIONS" on pages 54-57. Inevitably, some of the assumptions used to develop the forecasts will not be realized, and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and these differences may be material.

	2007	2008	2009	2010	2011
Revenues:					
Airport Properties - Logan					
Landing Fees	$ 86,197	$ 88,272	$ 96,489	$103,677	$109,422
Parking Fees	100,633	104,411	114,235	116,505	118,875
Utility Fees	29,184	24,536	26,838	27,019	27,559
Terminal Rentals	104,902	109,382	118,542	126,497	133,814
Non-Terminal Building and Ground Rentals	34,542	36,253	37,297	33,372	34,040
Concessions	52,707	52,958	54,178	55,730	56,845
Other	17,532	15,594	15,723	15,856	16,159
	425,697	431,406	463,302	478,656	496,714
Airport Properties - Hanscom	7,665	8,431	9,198	10,119	10,321
Total Airport Properties	433,362	439,837	472,500	488,775	507,035
Port Properties					
Maritime Operations	47,035	51,629	54,950	58,487	62,254
Maritime Real Estate	17,734	14,121	14,532	14,954	15,390
	64,769	65,750	69,482	73,441	77,644
Bridge	29,755	27,773	27,773	27,773	27,773
Total Operating Revenue	527,886	533,360	569,755	589,989	612,452
Investment Income (1)	14,099	6,959	6,273	6,815	7,359
Total Revenues	541,985	540,319	576,028	596,804	619,811
Operating Expenses (2):					
Airport Properties					
Logan	242,341	261,211	279,806	301,103	322,305
Hanscom	7,533	8,090	8,656	9,262	9,911
	249,874	269,301	288,462	310,365	332,216
Port Properties					
Maritime Operations	46,618	49,108	52,546	56,224	60,160
Maritime Real Estate	14,301	16,922	18,107	19,375	20,731
	60,919	66,030	70,653	75,599	80,891
Bridge	10,635	11,496	12,300	13,161	14,083
Total Operating Expenses	321,428	346,827	371,415	399,125	427,190
Net Revenues	$220,557	$193,492	$204,613	$197,679	$192,621
Annual Debt Service (3)	$ 98,426	$110,438	$110,375	$110,414	$110,648
Annual Debt Service Coverage	2.24	1.75	1.85	1.79	1.74

(1) Excludes investment income earned by and deposited into Construction and PFC Funds.
(2) Includes allocation of all operating expenses related to Authority General Administration.
(3) Assumes the issuance of additional Bonds in the amount of $232.0 million in July 2009. The 2003-B and 2005-B Bonds are assumed to bear interest at a rate of 5.26% per annum. The Bond issue in July 2009 is assumed to bear interest at a rate of 6.0% per annum. Reflects annual net receipts of $815,000 applied in fiscal year 2007 on account of an interest rate swap that was terminated, existing capitalized interest applied in fiscal year 2007, and the impact of capitalized interest for no more than 24 months for the 2009 new money issue.

MANAGEMENT'S DISCUSSION OF HISTORICAL OPERATING RESULTS

The Authority derives revenues from a wide variety of sources, including landing fees and terminal rentals, commercial parking fees, concession and rental car revenues, cargo tariffs, land rentals and Bridge tolls. Certain of these revenues are regulated by state or federal law, such as aeronautical revenues derived from landing fees and terminal rentals, PFCs and port tariffs. See "AUTHORITY REVENUES – Airport Properties Revenues" and "AVIATION INDUSTRY CONSIDERATIONS – Federal Law Affecting Rates and Charges" and "– Considerations Regarding Other Sources of Revenue." The Authority is not restricted by law with respect to establishing rates for certain other activities, such as commercial parking rates and rental rates for development properties, but the Authority is subject to general market conditions. Similarly, the Authority's operating expenses are governed, in part, by applicable law, which mandates certain standards for large commercial service airports, such as Logan Airport, including safety and security staffing and capital requirements. For example, following September 11, FAA and TSA instituted numerous security measures for all U.S. airports and seaports, including Logan Airport, Hanscom Field, Worcester Regional Airport and the Port of Boston, which increased the Authority's Operating Expenses. These measures include, but are not limited to, increasing the number of security and law enforcement personnel, restricting the parking of vehicles near terminals (including the closing of certain parking facilities at Logan Airport for a period of time), prohibiting all unticketed persons beyond security checkpoints and enhancing the search and screening of all passengers and baggage.

Total Revenues according to Trust Agreement accounting in fiscal year 2006 were $510.4 million, compared to $469.7 million in fiscal year 2005, while Operating Expenses increased to $293.9 million in fiscal year 2006 from $269.7 million in fiscal year 2005 resulting in Net Revenues of $216.5 million and $200.0 million in fiscal years 2006 and 2005, respectively. Logan Airport is the primary source of the Authority's Revenues, Net Revenue and Operating Expenses. For a discussion of the differences between the accounting principles required by the 1978 Trust Agreement and generally accepted accounting principles ("*GAAP*"), see Note B to the Financial Statements in APPENDIX A. Revenues and Net Revenues do not include PFC revenues, which are required under federal law to be applied to certain capital projects at the Airport and are not pledged for the benefit of holders of the Bonds.

Operating revenue and expense figures for the Airport Properties, Hanscom Field, Port Properties and the Bridge do not include certain items, particularly expense items such as payments in lieu of taxes, interest and depreciation and amortization, properly allocable to such properties under GAAP.

The Authority actively manages both its revenues and expenses in order to balance several important goals, including the following: maintaining overall expenses at levels designed to maintain the Authority's standards for customer service while maintaining reasonable rates for the users of its facilities, recovering a greater share of the actual costs of each of the Authority's Properties from the users of such Properties, maintaining the Authority's financial flexibility and ability to react to unforeseen events and balancing the mix of revenue sources to reduce reliance on any single source of revenues.

The Authority benchmarks certain key indices against its peers and establishes financial targets based upon such indices in order to evaluate its rates and maintain a competitive position in the various markets served by the Authority. The Authority strives to balance the need to maintain competitive rates with the need to provide a high level of service to its customers. Because the aeronautical rates and charges at Logan Airport are driven by actual costs, the Authority continually reviews and analyzes, and ultimately, controls, its operating expenses. Thus, the Authority develops its five-year rolling capital program taking into account the annual capital and operating costs that will result from each project within the program. In an iterative process, the Authority develops a five-year rolling projected operating budget based upon the projected five-year capital program and benchmarks the projected operating expenses resulting from the proposed projects in order to constrain the capital program in a manner that allows the Authority to meet its financial targets.

Consistent with the profit and loss focus of the Authority's senior management, each of the operating departments, Aviation, Maritime and the Bridge, seek to recover an increasingly greater percentage of the actual operating costs and amortization allocable to each facility. Thus, for example, in recent years the Aviation Department has raised rents at and instituted a new rates and charges policy for use of Hanscom Field, the Maritime Department has increased tariffs for services provided to commercial shippers at the Port of Boston and tolls for use of the Bridge have been increased.

In both the manner in which rates and fees are established as well as the ability to control operating expenses, the Authority has demonstrated its ability to react to significant unforeseen events. The Authority commenced immediate actions to manage both its revenues and expenses following September 11. The annual budget includes the projected Revenues of the Authority, as well as projected Operating Expenses, and also sets forth the deposits to the funds established under the 1978 Trust Agreement necessary to meet the covenants set forth therein. The 1978 Trust Agreement also provides that the Authority may at any time adopt an amended or supplemental budget for the remainder of the then current fiscal year. On June 21, 2001, the Authority adopted a budget for fiscal year 2002 which projected Revenues of \$364.1 million and Operating Expenses of \$226.6 million. Following September 11, the Authority adopted an amended budget on October 11, 2001, as part of a comprehensive financial recovery plan (the "*Financial Recovery Plan*") which reduced both projected Revenues and Operating Expenses. The resulting revised budget projected Revenues of \$305.6 million (reduced from \$364.1 million) and Operating Expenses of \$203.3 million (reduced from \$226.6 million).

The Financial Recovery Plan included a wide range of actions: programmatic and organizational changes, personnel reductions comparable to those implemented by the Airport's private sector employers in the fall of 2001, service level cutbacks, and certain rate increases. The revised expense targets for non-personnel items were met by reducing contract services such as building cleaning and bus frequencies and by eliminating extended hours in the port facilities, together with lower oil prices and a mild winter which reduced utility expenses. A 15% reduction in personnel was achieved through a combination of an early retirement program and lay-offs; but these expense reductions were counter-balanced by significant increases in costs from security services, principally the cost of additional public safety personnel and related overtime. As permitted by the 1978 Trust Agreement, the Financial Recovery Plan also reduced the amount deposited to the Maintenance Reserve Fund (from approximately 1.5% to 1% of the replacement cost of the Authority's facilities) and the Payment in Lieu of Taxes Fund. Key revenue growth was accomplished by increasing parking rates at the Airport and raising Bridge tolls. Overall, the impact of the revenue increases and operating budget reductions resulted in the final results for fiscal year 2002 being better than forecasted in the Financial Recovery Plan.

By adjusting to the changed circumstances quickly, the Authority demonstrated its capacity to preserve its financial stability, meet its financial covenants, pay its financial obligations, continue operations and adjust to the reduced level of operations.

Airport Properties

Airport Properties Net Revenues (Airport Properties Revenues less Airport Properties Operating Expenses), increased from fiscal year 2005 to fiscal year 2006 by 4.9%. The number of passengers using Logan Airport in fiscal year 2006 was 2.2% greater than the prior fiscal year. Landed weights were 2.1% lower than the prior fiscal year. Parking exits decreased 7.0% over the prior fiscal year, and parking revenues were 0.7% less than revenues from fiscal year 2005, substantially due to the impact of major construction taking place under the Central Parking Garage Expansion and Repairs project (see "CAPITAL PROGRAM"). Logan Airport generated approximately \$396.6 million of Revenue and incurred \$218.7 million of Operating Expenses in fiscal year 2006, compared to \$368.3 million of Revenues and \$198.4 million of Operating Expenses in fiscal year 2005. Operating revenue and expense figures for Logan Airport stated in this paragraph do not include certain items, particularly expense items, such as interest, depreciation and amortization, properly allocable to Logan Airport under GAAP.

Unlike many airport operators, the Authority is not constrained by contractual arrangements with the air carriers serving the Airport governing the incurrence of aeronautical costs and the recovery of such costs in the landing fee and terminal rentals. Instead, landing fees and terminal rentals are set annually by the Authority on a compensatory basis to cover direct and allocated capital, administration, maintenance and operating costs. Accordingly, each October, the Authority establishes the landing fee for the Airport per thousand pounds of landed weight and the rental rates for the terminals, based upon historic capital costs and projected landed weights, and the budgeted direct and allocable indirect operating costs of providing these facilities for that fiscal year. The Authority typically consults with Logan Airport's airline users prior to rate-setting, but the Authority historically has not entered into use agreements or terminal leases which constrain the exercise of the Authority's rate-setting prerogatives. The Authority has no agreements which require it to obtain "majority-in-interest" approvals from airlines for its operating or capital expenditures.

Landing Fees. Landing fee revenues at the Airport increased from $69.9 million in fiscal year 2005 to $76.7 million in fiscal year 2006. During this period, the landing fee rate per thousand pounds of landed weight increased from $3.07 to $3.89. The Authority's past practice had been to include any shortfall (or surplus) in the landing fees collected and the actual cost of operating the airfield for the prior year in the landing fee for the next succeeding year. Beginning with fiscal year 2006, the Authority instituted a new policy. The variance from the projections was calculated after the fiscal year ended, and the adjustment was invoiced to and paid by the air carriers and other users. If the variance had been in the air carriers' favor, the Authority would have paid the air carriers the variance. Landed weights at Logan Airport decreased from approximately 20,822,000 thousand pounds in fiscal year 2005 to 20,376,000 thousand pounds in fiscal year 2006. Unpaid landing fees are generally recovered by amortizing bad debts over five years and adding such amount to the landing fee.

On February 16, 2005, the Authority adopted a peak period surcharge regulation which was effective March 11, 2005 (the "*Peak Period Surcharge Regulation*"). Pursuant to the Peak Period Surcharge Regulation, the Authority monitors projected aviation activity at Logan Airport. If as a result of such monitoring, the Authority projects that the total number of aircraft operations scheduled for the Airport will exceed the total number of operations that can be accommodated without incurring unacceptable levels of delay under visual flight rule conditions, then the Authority will provide advance notice of such over-scheduling to the aircraft operators at the Airport. In the event that the aircraft operators at the Airport do not adjust their flight schedules, then the Authority may declare a "*Peak Period*" during the period of over-scheduling and impose a surcharge, currently set at $150, for each operation during such Peak Period, subject to certain exemptions. Any surcharge amounts collected are credited to the airfield cost center. However, in accordance with applicable federal law, the Peak Period Surcharge Regulation is intended to be revenue neutral. Accordingly, the Peak Period Surcharge Regulation is not expected to have any material financial effect on the Authority's Revenues or Net Revenues. The Peak Period Surcharge Regulation was adopted in accordance with requirements of the MEPA certificate and the FAA's Record of Decision regarding Runway 14/32, and the final decision in *Massport v. City of Boston, et al*. Based upon the current level of operations at the Airport, there is no Peak Period currently in effect. The Authority expects to continue to seek opportunities to maximize the utilization of existing capacity.

Rentals. Each fiscal year the Authority establishes terminal building rental rates and fees for all of the Terminals, also on a compensatory basis. All leases with air carriers for terminal space at the Airport currently provide that the Authority may revise rental rates periodically, at the discretion of the Authority, to recover the actual direct and indirect capital and operating costs for such leased space. The Authority resets these rates each fiscal year to recover its actual capital and budgeted operating costs. Corresponding to the change in policy regarding landing fees (described above), beginning with fiscal year 2006, the Authority instituted a policy whereby the variance from the projections is calculated after the fiscal year ends, and the adjustment is invoiced to and paid by the air carriers and other users. If the variance is in the air carriers' favor, the Authority would pay the air carriers the variance. In addition, leases with certain carriers that are obligors of special facilities revenue bonds issued by the Authority and secured by a pledge of certain lease revenues require such carriers to pay rent in an amount at least sufficient to pay the debt service on such bonds and the allocable compensatory costs to the Authority. See "OTHER OBLIGATIONS – Special Facilities Revenue Bonds."

In August 2001, the Authority entered into a long-term lease of Terminal A with Delta pursuant to which the old Terminal A was closed and demolished, and redeveloped by Delta. When the old Terminal closed in May 2002, the Authority ceased to receive rental payments for the old Terminal A. Delta relocated all of its operations to the new Terminal A on March 16, 2005. After Delta filed for Chapter 11 bankruptcy protection in September 2005, the Authority and Delta negotiated a "Restated and Amended" lease effective as of July 1, 2006. As a result, Delta now has a ten-year lease, which includes 12 gates and four regional aircraft positions. Rentals from Terminal A were $6.0 million in fiscal year 2005, due to the terminal opening with approximately three months left in the fiscal year, and $20.2 million in fiscal year 2006, the terminal's first full year of service. (For a discussion of Terminal A rentals during the forecast period, under the Restated and Amended lease, see "MANAGEMENT'S DISCUSSION OF FORECAST ASSUMPTIONS – Airport Properties.") The Authority has entered into a lease of the western wing of Terminal B with US Airways for a term scheduled to end September 30, 2023, and the Authority entered into a similar lease of a significant portion of the eastern wing of Terminal B with American Airlines for a term expiring in 2010, which may be extended to 2015. See "AIRPORT PROPERTIES – Airport Facilities – Lease Arrangements for Terminal Facilities." Rentals from Terminal B were $21.7 million in fiscal year 2006. With the exception of JetBlue, the Authority does not have long-term written agreements with most of the airline tenants in Terminals C and E. Rental

rates for such Terminals are set on a compensatory basis to recover direct and allocated capital, administration, maintenance and operation costs. Rental revenue from these three Terminals totaled $61.0 million in fiscal year 2006. Rental income from buildings other than Terminals totaled $22.6 million in fiscal year 2006 and income from land rentals produced an additional $12.1 million.

The Authority has two available rate-setting methods to correct for any shortfall in revenues resulting from unanticipated reductions in terminal building rentals. Beginning with fiscal year 2006, the Authority instituted a policy whereby the variance from the projections is calculated after the fiscal year ends, and the adjustment is invoiced to and paid by the air carriers and other tenants. With respect to Terminal E passenger fees, the adjustment also incorporates the variances in departing and arriving passengers. If the shortfall or surplus variance is in the air carriers' favor, the Authority would pay the air carriers the variance. The Authority's practice, however, is that the Authority does not recover through its terminal rentals the costs allocable to unrented space or bad debts. Prior to fiscal year 2006, the Authority carried forward any shortfall or any surplus attributable to the terminal cost center by incorporating such adjustment into the rate-setting formula for the next fiscal year. The Authority can also make adjustments during the year to the rates charged for terminal usage.

Parking Fees. Airport parking revenues decreased from $93.0 million in fiscal year 2005 to $92.3 million in fiscal year 2006, reflecting the impact of the on-going construction due to the Central Parking Garage Repairs and Expansion project. The revenue impact was mitigated by the lengthening of the average stay in the parking facilities. Parking fees are generated according to parking rates set by the Authority, and the Authority does not share parking fees with the carriers as an offset to either landing fees or terminal rents; rather the Authority retains the business risk and the return of this cost center. The number of commercial parking spaces at the Airport is subject to a limitation imposed by the EPA. See "AIRPORT PROPERTIES – Airport Facilities – Parking Facilities."

Concessions. Revenues from concessions increased from $48.2 million in fiscal year 2005 to $51.9 million in fiscal year 2006. Concession revenues include payments made by rental car companies that operate at the Airport and commissions from the following concessions: food and beverage, news and gifts, duty free shops, specialty shops, and other concessions.

Hanscom Field. During fiscal year 2006, Revenues from operations at Hanscom Field represented approximately 1.4% of the total Revenues of the Authority, and Hanscom's Operating Expenses constituted approximately 2.4% of the Authority's Operating Expenses. In fiscal year 2006, Hanscom Field contributed $7.2 million of Revenue, with Operating Expenses of $7.1 million, yielding an operating surplus before debt service or other capital expenses of approximately $71,000. Net revenue from Hanscom Field was a loss of $249,000 in fiscal year 2005. Hanscom Field's fiscal year 2006 results were improved due to increased rates and charges imposed upon Hanscom's users.

Worcester Regional Airport. All payments made under the Worcester OA have been made from cash in the Improvement and Extension Fund.

Port Properties

Results of operations of the Authority's Maritime Department and those properties formerly managed by the Business Development Department are separately stated through 2003. Beginning in 2004, results are restated as Maritime Operations and Maritime Real Estate. Maritime Operations includes container activity, cruise passenger activity and automobile processing (all previously under Maritime). Maritime Real Estate includes all of the former Business Development Department's real estate assets and some land/building assets that were previously reported under Maritime. The Authority has traditionally experienced annual Port Properties operating deficits (Maritime and Business Development Revenues less Maritime and Business Development Operating Expenses). These deficits reflect the allocation of a portion of Authority-wide administrative and overhead costs as well as all direct costs.

Since fiscal year 2004 the Authority has experienced small annual Port Properties operating surpluses. In fiscal year 2006, the Revenue attributable to the Port Properties totaled approximately $63.0 million, or approximately 12.3% of the Revenues of the Authority, and the Port Properties accounted for approximately $58.6 million of Operating Expenses, or approximately 19.9% of the Authority's Operating Expenses. In fiscal year 2006, the Port

Properties realized a surplus of $4.4 million in Net Revenues, following a surplus of $3.0 million in fiscal year 2005. The Net Revenues from Maritime Operations was a surplus of $1.4 million for fiscal year 2006, while the Net Revenue from Maritime Real Estate was a surplus of $2.9 million in fiscal year 2006. Over the period shown, the Authority has pursued a policy of seeking compensatory pricing, aggressively negotiating new lease terms when possible, and revenue development through more intense use of the Port Properties and a marketing program designed to increase the volume of containers handled and the number of cruise passengers who embark or disembark in Boston, in an effort to mitigate these deficits.

Bridge

In fiscal year 2006, Revenues from the Bridge were approximately $28.3 million, or approximately 5.5% of the total Revenues of the Authority. Bridge Operating Expenses for fiscal year 2006 were $9.5 million, yielding an operating surplus on Bridge operations before debt service or other capital expenses of approximately $18.7 million. Net Revenue from Bridge operations was $17.9 million in fiscal year 2005. Effective April 3, 2004, passenger car tolls were increased from $2.00 to $3.00 (except for residents of Chelsea and Charlestown holding commuter passes who pay a reduced toll and electronic toll collection ("*FastLane*") users who receive a $0.50 discount).

Other

Investment Income. Investment income increased from $9.5 million in fiscal year 2005 to $15.3 million in fiscal year 2006, reflecting increases in short-term interest rates over the period.

MANAGEMENT'S DISCUSSION OF FORECAST ASSUMPTIONS

The following discussion elaborates on the information contained in the above table entitled "Forecasted Operating Results and Debt Service Coverage Under the 1978 Trust Agreement" and reflects the most current information available to the Authority. The table and ensuing discussion contain pro-forma forecasts for the period covering fiscal year 2007 through fiscal year 2011. This prospective information was prepared by the Authority in accordance with accounting principles required by the 1978 Trust Agreement in order to show projected debt service coverage; such information was not prepared with a view toward compliance with the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. The forecasts were prepared by the Authority's staff. Jacobs Consultancy prepared a review of the Authority's Airport Net Revenues Forecasts in connection with the issuance of the 2007 Bonds. In the opinion of Jacobs Consultancy, the assumptions upon which the Authority's forecasts are based provide a reasonable basis for such forecasts. See APPENDIX C to this Official Statement, which should be read in its entirety for an understanding of the forecasts and the key underlying assumptions therein. For fiscal year 2007, projections are based on the Authority's unaudited actual results through December 31, 2006 and the approved budget for the last half of fiscal year 2007. Revenues were forecasted to be $542.0 million for fiscal year 2007 and the approved Operating Expenses total $321.4 million. Through December 31, 2006, operating revenues of $264.4 million were 3.8% above budget and 8.7% ahead of the same time period in fiscal year 2006. Total Revenues of $274.5 million were $15.9 million or 6.1% above budget. For the same period, Operating Expenses of $152.9 million were $9.7 million or 6.0% below budget for the first six months of the fiscal year. Net revenues of $121.6 million for the first six months of the fiscal year were $25.6 million or 26.7% greater than the forecast.

The forecasts reflected in the table assume (a) growth of operating costs at 4.0% for the Airport in fiscal year 2008 in relation to the fiscal year 2007 budget, with a larger 7.0% operating cost increase in fiscal year 2008 at Hanscom Field, the Port Properties and the Bridge, (b) growth of baseline operating costs at 7.0% annually thereafter, and inflation of capital costs (to the mid-point of construction) at 4.0% annually, (c) investment income (other than for investment agreements currently in effect) at a rate of 3.64% in fiscal year 2007 and 2.25% thereafter, (d) an interest rate of 6.0% on Bonds issued in 2009, (e) completion dates for capital projects as currently contained in the FY07-FY11 Capital Program, and (f) the addition of staff and contract services in future years, as necessary, to operate new facilities as they are placed in service.

The Authority believes that the forecasts reflected on the table are conservative in nature. They are based on the assumption that passengers using Logan Airport will grow at 1.5% per annum over the number of passengers that

used Logan in calendar year 2006. These forecasts do not assume any significant future disruptions to air travel or cessation of service by any air carrier now serving the Airport. This forecast is intended to be conservative to aid in financial planning and can be contrasted with the Authority's planning forecast and the FAA's terminal area forecast for Logan Airport. See APPENDIX B – Boston-Logan International Airport Market Analysis. If the forecasted Revenues are not realized in any material way, then the Authority expects that it will neither execute all of the projects listed in the FY07-FY11 Capital Program nor issue all of the debt assumed in these forecasts. The Authority's willingness and ability to reduce capital spending when events so require was demonstrated in its response to the events of September 11 and in the subsequent adherence to the Financial Recovery Plan. In addition, forecasted revenues do not include Customer Facility Charges expected to be levied on rental car patrons. See "CAPITAL PROGRAM – Logan Airport Improvements; Southwest Service Area Parking Garage and Consolidated Rental Car Facility."

Airport Properties

Forecasted revenues from landing fees and terminal rentals reflect the periodic revision of such charges at rates designed to recover the net annual cost of providing these airport facilities. Net annual costs include all operating expenses and amortization of capital costs, less any PFC revenues applied to these projects and any federal grant funds received for these projects. For the overall period from fiscal year 2007 to fiscal year 2011, landing fee revenues are forecasted to increase at an average annual rate of 6.1%. The increases over the forecast period are attributable to the inclusion in the rate base of airfield capital costs, including allocable capital costs from other Airport capital projects and increased operating costs.

Terminal building rental revenues from fiscal year 2007 through fiscal year 2011 are projected to increase at an average annual rate of 6.3%. In fiscal year 2007, terminal building rental revenues are forecast to be $104.9 million, which is 1.9% greater than fiscal year 2006. The small increase forecast for fiscal year 2007 reflects additional airline vacancies, primarily due to the impact of the Restated and Amended lease, which was effective as of July 1, 2006 between Delta and the Authority. As a result, Delta now has a ten-year lease, which includes 12 gates and four regional aircraft positions in Terminal A, rather than all the airline operating areas in the terminal, which was Delta's commitment prior to July 1, 2006. In fiscal year 2007, the portion of Terminal A rents paid to the Authority is forecast to total $16.8 million (exclusive of debt service paid by Delta) down from $20.1 million in fiscal year 2006. See "AIRPORT PROPERTIES – Airport Facilities; Lease Arrangements for Terminal Facilities." Terminal building rentals also include baggage fees calculated to recover the Authority's cost of operating baggage screening in unleased space and per passenger fees that recover Terminal E costs related to international passengers and unleased, common-use space.

Forecasted parking revenues assume (i) further adjustments to the parking rate structure in July 2008, and (ii) normal growth in the number of vehicle exits of approximately 2% per year. Revenue from non-terminal and ground rents are forecasted to increase at an average annual rate of 1.9% through fiscal year 2009, and then decrease in fiscal year 2010 as a portion of these revenues are assumed to be redirected to partially fund the Consolidated Rental Car Facility.

Concession revenues are forecasted to increase at an average annual rate of 1.8% for the period from fiscal year 2007 through fiscal year 2011.

Assuming a combination of inflation, programmatic growth and incremental operating and maintenance expenses associated with new facilities, Operating Expenses of the Airport Properties are forecasted to increase at an average annual rate of 7.4% for the period from fiscal year 2007 through fiscal year 2011.

Forecasted Revenues and Operating Expenses of the Airport are based in part on assumptions regarding future levels of passenger enplanements. In making such assumptions, the Authority has used estimates of annual growth in enplanements of 1.5% beginning in calendar year 2007. Such estimate reflects the Authority's preference for using conservative estimates in its financial planning. The Airport Market Analysis states that the Authority's financial forecast of enplanement growth at the Airport of 1.5% per year is reasonable, that the FAA's terminal area forecast of 2.3% represents a reasonable level of future passenger traffic at the Airport, and that the Authority's financial forecast of 1.5% average annual growth from 2007 through 2011 is conservative compared to the FAA forecast and the Airport's historical annual growth.

The Authority has assumed that it will receive approximately $110.2 million of federal TSA, AIP entitlement, noise and other discretionary grant reimbursements during the period from fiscal year 2007 through fiscal year 2011. See "AVIATION INDUSTRY CONSIDERATIONS – Considerations Regarding Other Sources of Revenue – Federal Grants-in-Aid." If these funds are not received, projected landing fees would increase over the coming years. There can be no assurance that such AIP grant funds will be available in the amount or at the time projected

Review of the Boston Regional Market Analysis

The Market Analysis Report set forth in APPENDIX B was prepared by Simat, Helliesen & Eichner, Inc., Cambridge, Massachusetts, in connection with the issuance of the 2007 Bonds and the 2007 PFC Bonds. Such study is set forth herein in reliance upon the knowledge and experience of such firm as airport consultants.

Review of Airport Properties Net Revenues Forecasts by Consultants

Jacobs Consultancy prepared a review of the Authority's Airport Net Revenues Forecasts in connection with the issuance of the 2007 Bonds, which is included as APPENDIX C to this Official Statement. The review should be read in its entirety for a fuller understanding of the forecasts and the key underlying assumptions therein. In the opinion of Jacobs Consultancy, the assumptions upon which the Authority's forecasts are based provide a reasonable basis for the forecasts. As stated in the review, any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results and those differences may be material.

Port Properties

From fiscal year 2007 through fiscal year 2011, Revenues are forecasted to increase at an average annual rate of 4.6%, while expenses are projected to increase at an average annual rate of 7.3%. Using fiscal year 2006 volume as a base, growth in container related revenues is forecasted at an annual rate of 6.0%. From fiscal year 2007 through fiscal year 2011, the Maritime operating deficit is forecasted to average $0.6 million per year. The deficits are forecasted to grow in later years due to the assumption that not all cost increases will be passed on to facility users.

Reflecting additional revenues from South Boston development properties that are currently leased, Revenues from Maritime Real Estate are forecasted to increase by 8.1% in fiscal year 2007, decrease significantly in fiscal year 2008 due to the expiration of certain leases, and then grow at an average annual rate of 2.9% over the fiscal year 2009 to 2011 period. Revenue forecasts are not included for projects currently without signed leases, such as the Core Block in South Boston. The forecast also assumes an annual 9.7% increase in Maritime Real Estate Operating Expenses.

Bridge

Bridge Revenues are forecasted to decrease in fiscal year 2008 and then remain stable at $27.8 million per year. Total Bridge Operating Expenses are forecasted to increase by 7.3% annually during the period from fiscal year 2007 through fiscal year 2011.

Investment Income

The Authority's forecasts of investment income assume that existing investments are held until maturity at their respective stated rates of interest and that available cash will be reinvested at an interest rate of 3.64% in fiscal year 2007, and 2.25% in fiscal years 2008 through 2011.

Debt Service and Coverage

The Authority's forecasts include the issuance of additional Bonds to provide adequate capital for the Bond funded projects identified in the FY07-FY11 Capital Program. See "CAPITAL PROGRAM – Funding Sources." At present, the Authority anticipates the issuance of $232.0 million of additional Bonds in July 2009 to fund $187.7 million in project costs. There can be no assurance, however, that the amount and timing of this Bond issue will be as set forth in the preceding sentence. The 2009 Bond issue is assumed to bear interest at a rate of 6%. The Bond issue is

assumed to include capitalized interest during a two-year construction period, which is netted against annual debt service. This future Bond issue is assumed to include bond proceeds to fully fund the Reserve Account to an amount equal to the Reserve Account requirement. See "SECURITY FOR THE 2007 BONDS – Reserve Accounts." The Authority expects that the non-Bond funded modules of the FY07-FY11 Capital Program will be financed from the expenditure of proceeds from special facilities revenue bonds, PFC Bonds, commercial paper, the application of PFCs, private sources of capital, federal and other grants and cash flow from operations. The Authority does not project that this amount of additional debt will have an adverse impact on its ability to comply with the coverage requirements of the 1978 Trust Agreement. The Authority's capital program is designed to be modular, and the Authority expects to undertake projects only after sufficient funding has been secured. Forecasted coverages for the Authority's forecasted annual debt service are set forth in the table on page 49. There can be no assurance, however, that these coverage levels will be achieved. The coverage levels presented do not include PFC revenues or any debt service for debt payable from PFCs. For a discussion of the requirements relating to issuance of additional Bonds, see "SECURITY FOR THE 2007 BONDS – Additional Bonds."

AVIATION INDUSTRY CONSIDERATIONS

General Factors Affecting the Airline Industry

Since 2001, the global airline industry has undergone substantial structural changes and sustained significant financial losses. Due to the discretionary nature of business and personal travel spending, airline passenger traffic and revenues are heavily influenced by the strength of the U.S. economy, other regional and world economies, corporate profitability, security concerns and other factors. Permanent structural changes to the industry are the result of a number of factors including the impact of low cost carriers, internet travel web sites and carriers reorganizing under the U.S. Bankruptcy Code. Since 2001, several U.S. air carriers have sought to reorganize under Chapter 11, including United (which has since emerged from bankruptcy), Delta (which emerged from bankruptcy on April 30, 2007), Northwest Airlines and US Airways (which has sought reorganization twice and has since emerged from bankruptcy). It is possible that other airlines may seek to reorganize in or out of Chapter 11. With Delta's recent emergence from bankruptcy, of the four largest U.S. air carriers, only Northwest Airlines is still operating under the protection of the U.S. Bankruptcy Code. Potential investors are urged to review the airlines' financial information on file with the Securities and Exchange Commission (the "*SEC*") and DOT. See "Information Concerning the Airlines."

Faced with the growth of lower-cost airlines, and evolving business technology, legacy airlines have been forced to change their business practices. Many businesses have switched to lower-cost carriers and/or implemented significant reductions in business travel. As a result, carriers that once structured their services around the business traveler during the economic expansion in the 1990s have been forced to reduce or eliminate service on unprofitable routes, reduce work force, implement pay cuts, and reduce fares in order to compete with lower-cost carriers.

Another major tangible change in the airline industry has been the significantly increased use of smaller, regional jets. According to the Official Airline Guide data, scheduled flights nationwide on regional jets increased from an average of 85,496 monthly departures in 2000 to 271,509 in 2006, a compounded annual growth rate of 21.2% during this period. Scheduled regional jet traffic accounted for 33% of the scheduled domestic flights in 2006, compared to 10% in 2000.

Other trends that have emerged include: (i) more widespread use of simplified fare structures, (ii) the growth of competition by lower-cost carriers in long haul markets, (iii) increased efficiency and productivity, and (iv) declining real fares. See APPENDIX B – Boston-Logan International Airport Market Analysis for a discussion of certain factors affecting future airline traffic.

Information Concerning the Airlines

Many of the principal domestic airlines serving the Airport, or their respective parent corporations, and foreign airlines serving the Airport with American Depository Receipts ("*ADRs*") registered on a national exchange are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file reports and other information with the SEC. Certain information, including financial information, concerning such domestic airlines, or their respective parent corporations, and such foreign airlines is

disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected and copied at the public reference facilities maintained by the SEC, which can be located by calling the SEC at 1-800-SEC-0330. The SEC maintains a web site at http://www.sec.gov containing reports, proxy statements and other information regarding registrants that file electronically with the SEC. In addition, each airline is required to file periodic reports of financial and operating statistics with DOT. Such reports can be inspected at DOT's Office of Airline Information, Bureau of Transportation Statistics, Department of Transportation, Room 4201, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies of such reports can be obtained from DOT at prescribed rates.

Foreign airlines serving the Airport, or foreign corporations operating airlines serving the Airport (unless such foreign airlines have ADRs registered on a national exchange), are not required to file information with the SEC. Such foreign airlines, or foreign corporations operating airlines, serving the Airport file limited information only with the DOT.

Neither the Authority nor the Underwriters undertakes any responsibility for or makes any representation as to the accuracy or completeness of (i) any reports and statements filed with the SEC or DOT or (ii) any material contained on the SEC's website as described in the preceding paragraph, including, but not limited to, updated information on the SEC website or links to other Internet sites accessed through the SEC's website.

Financial Condition of the Airline Industry

According to the Air Transport Association of America, Inc. (the "*ATA"*), the initial industry economic outlook for 2007 is the most promising in several years. However, airline debt levels remain high, leaving the airlines vulnerable to fuel spikes, recession or exogenous shocks (e.g. terrorism, pandemics, natural disasters). It is uncertain whether the industry will sustain such a financial outlook over the long-term given the risk factors outlined above and unrelentingly high fuel prices. According to ATA figures, passenger revenue in 2006 remained sharply below comparative historical levels and since 2001 has dropped to 0.73% of U.S. gross domestic product, down from the 1980-2000 average of 0.95%. While the Authority believes that it is less vulnerable to the economic condition of individual airlines because of Logan Airport's high percentage of origin-destination passengers and because no single airline accounts for a majority of enplaned passengers, no assurance can be given as to the financial stability or profitability of the airline industry or of any airline in particular.

The airlines serving the Airport have all been impacted by the events described above and have experienced an increase in costs and a resulting decline in financial condition to varying degrees. Several airlines have filed for bankruptcy protection and are in various stages of their workouts. Since 2001, several airlines with operations at the Airport have filed for bankruptcy protection, including United Airlines, US Airways (twice), American Trans Air, Delta and Northwest. Of these airlines, US Airways emerged from both of its bankruptcy proceedings and was part of the merger of the parent companies of US Airways and America West Airlines that occurred in September 2005; both United and American Trans Air emerged from bankruptcy in February 2006; Delta emerged from bankruptcy in April 2007; and Northwest remains in bankruptcy and is continuing operations at the Airport. Additional bankruptcies, liquidations or major restructurings of other airlines could occur. It is not possible to predict the impact on the Airport of the recent, potential and any future bankruptcies, liquidations or major restructurings of other airlines. See "Effect of Bankruptcy of Air Carriers."

Effect of Bankruptcy of Air Carriers

Under the U.S. Bankruptcy Code, a debtor airline that is a lessee under an unexpired lease with the Authority of non-residential real property is required, within certain statutory time periods, to assume or reject such lease. Rejection of a use or other agreement or executory contract would give rise to an unsecured claim of the Authority for damages, the amount of which in the case of a use or other agreement is limited by the U.S. Bankruptcy Code. The amount ultimately received in the event of a rejection of a use or other agreement could be considerably less than the maximum amounts allowed under the U.S. Bankruptcy Code. Additionally, during the pendency of a bankruptcy proceeding, a debtor airline may not, absent a court order, make any payments to the Authority on account of goods and services provided prior to the bankruptcy. Thus, the Authority's stream of payments from a debtor airline would be interrupted to the extent of unpaid fees for pre-petition goods and services, including accrued rent and landing fees.

The Authority actively monitors past due balances to minimize any potential losses due to such proceedings, aggressively pursues overdue amounts and bankruptcy claims, and includes an allowance for uncollectible debts in its landing fee and terminal rental rates.

Whether or not an airline agreement is assumed or rejected in a bankruptcy proceeding, it is not possible to predict the subsequent level of utilization of the gates leased under such agreement. Decreased utilization of gates could have a material adverse effect on Airport operations, as well as on the Authority's Revenues. In fiscal year 2006, total terminal rentals were $103.0 million or 20.2% of the Authority's Revenues.

Cost of Aviation Fuel

According to the ATA, jet fuel currently comprises 20-30% of the airline industry's operating expenses, overtaking labor as the top cost for most carriers, while historically it only accounted for 10–15% of total airline costs. With fuel doubling as a percentage of costs, fuel prices are a crucial and uncertain determinative of an air carrier's operating economics. Airline earnings are significantly affected by changes in the price of aircraft fuel. Volatility of oil prices continue to be susceptible to, among other factors, natural disasters, hostilities and political unrest in various parts of the world, Organization of the Petroleum Exporting Countries policy, the rapid growth of economies such as China, the levels of inventory carried by industries, the amounts of reserves built by governments, disruptions to production and refining facilities, and weather. Some U.S. airlines have attempted to pass higher fuel costs to consumers by increasing the fuel surcharge or increasing the price of airfares. Many of these attempts have been unsuccessful as many airlines, particularly the low-cost carriers, refused to match the increase. Significant and prolonged increases in the cost of aviation fuel or any decreases in the availability of aviation fuel are likely to have an adverse impact on air transportation industry profitability and hamper the recovery plans and cost-cutting efforts of the airlines.

Aviation Security Concerns

A terrorist threat or terrorist incident aimed at aviation could have an immediate and significant impact on the demand for aviation services, including, but not limited to, services at the Airport and depress airline industry revenues and the Authority's revenues.

Since September 11, intensified security precautions have been instituted by government agencies, airlines and airport operators. These precautions include the strengthening of aircraft cockpit doors, changes to prescribed flight crew responses to attempted hijackings, increased presence of armed sky marshals, federalization of airport security functions under the TSA and revised procedures and techniques for the screening of passengers and baggage for weapons and explosives. No assurance can be given that these precautions will be successful. Also, the possibility of intensified international hostilities and further terrorist attacks involving or affecting commercial aviation are a continuing concern that may affect future travel behavior and airline passenger demand.

Because of the implementation of the Congressional mandate for the screening of all checked baggage for explosives, as well as the impact on airport operations of procedures mandated under "Code Orange" (high) and "Code Red" (severe) national threat levels declared by the Department of Homeland Security under the Homeland Security Advisory System, there is the potential for significantly increased inconvenience and delays at many airports, although to date only relatively minor delays have been experienced as a result of these enhanced security procedures.

The Boston-Logan International Airport Market Analysis included in APPENDIX B states that historically airline travel demand has recovered from temporary decreases stemming from recessions, carrier liquidations, terrorist attacks and international hostilities. Given the strong origin-destination character of the Airport's market, the travel intensity of Boston area's key industries and the high per capita income of the region, it can be expected that future demand for airline travel at the Airport will depend primarily on economic factors, rather than the financial health of any given air carrier. See APPENDIX B – Boston-Logan International Airport Market Analysis.

Impact of Uncertainties of the Airline Industry on the Airport

As discussed in the Airport Market Analysis attached as APPENDIX B, the factors affecting aviation activity at the Airport include: the growth of population and of the economy in the Boston Secondary Market Service Area, airline service and route networks, the financial health and viability of the airline industry, national and international economic and political conditions, the availability and price of aviation fuel, levels of air fares, the capacity of the national air traffic control system and airport capacity at the Airport and elsewhere. See APPENDIX B – Boston-Logan International Airport Market Analysis. The Airport Market Analysis should be read in its entirety for an understanding of all of the assumptions used to prepare the forecasts made therein. No assurances can be given that these or any of the other assumptions contained in the Airport Market Analysis will materialize. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the forecast period will vary, and the variations may be material. See "MARKET ANALYSIS AND REVIEW OF AIRPORT NET REVENUES" herein and APPENDIX B – Boston-Logan International Airport Market Analysis hereto. See also "Aviation Security Concerns."

Federal Law Affecting Airport Rates and Charges

Federal aviation law requires, in general, that airport fees be reasonable and that, subject to the "grandfather provisions" discussed below (see "Considerations Regarding Other Sources of Revenue – Federal Grants-in-Aid"), in order to receive federal grant funding, all airport generated revenues must be expended for the capital or operating costs of the airport, the local airport system, or other local facilities owned or operated by the airport owner that are directly and substantially related to air transportation of passengers or property. Pursuant to the requirements of the Federal Aviation Administration Authorization Act of 1994 (the "*1994 Aviation Act*"), the DOT and FAA have promulgated regulations setting forth an expedited hearing process to be followed in determining the reasonableness of airport rates and charges, and have also promulgated a policy statement (the "*Rates and Charges Policy*") which sets forth the standards that the DOT uses in determining the reasonableness of the fees charged to airlines and other aeronautical users.

On August 1, 1997, the United States Court of Appeals for the District of Columbia Circuit (the "*US Court of Appeals*") vacated the Rates and Charges Policy in part and remanded it to the DOT. On October 15, 1997, the US Court of Appeals determined that a portion of the Rates and Charges Policy was arbitrary and capricious, including use of any "reasonable methodology" for valuation of non-airfield assets, and therefore vacated the policy and remanded it to the DOT. The DOT has not yet proposed revisions to the Rates and Charges Policy. When new guidelines will be published, the costs that will be permitted to be included in determining an airport's rate base and the extent to which such future guidelines may limit the Authority's flexibility in negotiating new airline agreements or in setting rates and charges for use of the Airport's airfield and non-airfield facilities cannot be determined at this time. Any new FAA guidelines or any standards promulgated by a court in connection with a dispute could limit the amounts and allocation of costs payable by airlines serving the Airport. Until the DOT promulgates a new policy regarding rates and charges, the guiding principle for determining whether rates and charges established for use of airport assets is the requirement of federal law that such charges be "reasonable."

The Authority is not aware of any formal dispute involving the Airport over any existing rates and charges, including the rates and charges for fiscal year 2007 which became effective on October 1, 2006. The Authority believes that the rates and charges methodology utilized by the Authority and the rates and charges imposed by it upon air carriers, foreign air carriers and other aeronautical users are reasonable and consistent with applicable law. However, there can be no assurance that a complaint will not be brought against the Authority in the near-term with respect to the fiscal year 2008 rates and charges, or in the future, challenging such methodology and the rates and charges established by the Authority and, if a judgment is rendered against the Authority, there can be no assurance that rates and charges paid by aeronautical users of the Airport will not be reduced. See "AUTHORITY REVENUES – Airport Properties Revenues."

Considerations Regarding Other Sources of Revenue

Passenger Facility Charges. Under the PFC Act, the FAA may authorize a public agency to impose a PFC of $1.00, $2.00, $3.00, $4.00 or $4.50, on each passenger of an air carrier enplaned at any commercial service airport

controlled by the public agency, subject to certain limitations. PFCs are available to airports to finance certain projects that (i) preserve or enhance capacity, safety or security of the national air transportation system, (ii) reduce noise resulting from an airport, or (iii) furnish opportunities for enhanced competition among air carriers and, with respect to a PFC of $4.00 or $4.50, that will make a significant contribution to improving air safety and security, increasing competition among air carriers, reducing current or anticipated congestion, or reducing the impact of aviation noise on people living near the airport. Under certain circumstances, the FAA grants approval to commence collection of PFCs ("*impose only*" approval) before approval to spend the PFCs on approved projects ("*use*" approval) is granted. Approval to both collect and spend PFCs is referred to as an "*impose and use*" approval.

No assurance can be given that PFCs will actually be received in the amount or at the time contemplated by the Authority. The amount of actual PFC revenues will vary depending on actual levels of qualified passenger enplanements at the Airport. In addition, the FAA may terminate the Authority's ability to impose PFCs, subject to informal and formal procedural safeguards, if the Authority's PFC revenues are not being used for approved projects in accordance with the FAA's approval, the PFC Act or the regulations promulgated thereunder or the Authority otherwise violates the PFC Act or regulations. The Authority's ability to impose a PFC may also be terminated if the Authority violates certain provisions of the Airport Noise and Capacity Act of 1990 and its implementing regulations. Furthermore, no assurance can be given that the Authority's authority to impose a PFC may not be terminated by Congress or the FAA, or that the PFC program may not be modified or restricted by Congress or the FAA so as to reduce PFC revenues available to the Authority.

Federal Grants-in-Aid. The Airport and Airway Improvement Act of 1982 created the AIP program, which is administered by the FAA and funded by the Airport and Airway Trust Fund. This fund is financed by federal aviation user taxes. Grants are available to airport operators in the form of "entitlement" funds and "discretionary" funds. Entitlement funds are apportioned annually based upon enplaned passengers and discretionary funds are available at the discretion of the FAA based upon a national priority system. In addition, pursuant to the PFC Act, an airport's annual federal entitlement grants are reduced by 50% following the imposition of PFCs of up to $3.00, and 75% for PFCs in excess of $3.00. In fiscal year 2004, the FAA approved the Airside LOI which included $90.8 million, subject to appropriation, to support construction of Runway 14/32 and the associated taxiways; the Authority has received payments totaling $28.6 million.

In addition, the Authority has entered into a Letter of Intent with TSA which provides, subject to appropriation, up to 75% grant funding of up to $87.0 million for the otherwise unrecovered costs of the hold baggage screening improvements constructed by the Authority. As of the date of this Official Statement, all $87.0 million has been obligated by the TSA, and payments totaling $79.1 million have been received by the Authority.

No assurance can be given that federal grants-in-aid, including grant awards under the FAA LOI, will actually be received in the amount or at the time contemplated by the Authority. In addition, the current AIP program expires on September 30, 2007, and will require federal reauthorization to continue. No assurance can be given that such reauthorization will occur, or at what levels the program may be funded in the future.

Before federal approval of any AIP grant applications can be given, eligible airports must provide written assurances that they will comply with a variety of statutorily specified conditions. One such assurance is the so-called "*airport generated revenues*" assurance which provides that all airport generated revenues will be expended for the capital or operating costs of the airport, the local airport system, or other local facilities owned or operated by the applicant that are directly and substantially related to air transportation of passengers or property. The airport generated revenues assurance, however, does not apply where provisions in laws controlling financing by the airport enacted not later than September 2, 1982, or a covenant or assurance in debt obligations issued not later than September 2, 1982 by the airport, provides that the revenues from any of the airport owner's or operator's facilities, including the airport, be used to support not only the airport but also the general debt obligations or other facilities of the airport owner or operator (the "*grandfather provisions*"). The Authority falls within the group of airports for which, under the grandfather provisions, the airport generated revenues assurance does not apply.

The Authority is not aware of any dispute involving the Authority concerning the use of Airport Revenues. The Authority believes that the grandfather provisions apply to its use of Airport Revenues and that the Authority's use of such Revenues is consistent with the applicable laws and regulations.

Environmental Regulations

The FAA has jurisdiction over aviation operations generally, including personnel, aircraft, ground facilities and other technical matters, as well as certain environmental matters. Under the FAA's noise reduction regulations, the air transportation industry was required to modify substantial numbers of its existing aircraft. Airport noise remains a significant federal and local issue at certain airports, including the Airport, which may require substantial capital investments by the industry and/or airport operators, including the Authority, from time to time to meet applicable standards. The EPA is ultimately responsible for regulating air quality and water quality. As these are areas of increasing focus, the potential exists for additional federal regulation that may require capital expenditures or changes in operations at the Authority's facilities. See "CAPITAL PROGRAM – Logan Airport Improvements – Residential Sound Insulation Program." See also "GENERAL OPERATIONAL FACTORS – Environmental and Regulatory Considerations."

GENERAL OPERATIONAL FACTORS

Personnel Considerations

Labor. As of the beginning of calendar year 2007, the Authority had 1,178 full-time employees, of whom 640 were covered by collective bargaining agreements. In addition, the Authority had 43 regular part-time and job share employees, of whom three are covered by collective bargaining agreements. There are currently nine collective bargaining units of Authority employees. One collective bargaining agreement has expired and is currently under negotiation. Two other agreements will expire in 2007 and five other agreements will expire in 2008. One collective bargaining unit, International Longshoreman's Association Local 810, representing the Authority's Port Officers, is without a current agreement as a result of the parties reaching an impasse and the Authority implementing a Final Offer on condition of employment as of December 31, 2006. Upon the expiration of a collective bargaining agreement, the Authority's practice is to continue honoring the terms of such agreement until a new agreement takes effect. The Authority seeks to control its labor costs to the extent possible and, accordingly, none of its labor agreements provides for an automatic cost-of-living escalator. The Authority considers its relations with its employees and their union representatives to be good.

Massachusetts law prohibits strikes by employees of the Authority. In addition, the Massachusetts Supreme Judicial Court has declared that labor unions negotiating collective bargaining agreements with certain entities, including the Authority, do not have a statutory right to demand "interest arbitration" in the event of an impasse. Therefore, successor collective bargaining agreements cannot be imposed upon the Authority by any outside entity.

Approximately 430 members of the International Longshoremen's Association Locals 799, 800, 805 and 1066 (the "*ILA*") work at Conley Terminal and the Black Falcon Terminal on either a full time or casual basis. The Authority, along with various stevedoring companies, shipping lines and terminal operators, constitute the Boston Shipping Association ("*BSA*"), which is a multi-employer bargaining unit responsible for the negotiation and administration of collective bargaining agreements with the ILA. Decisions by the BSA on matters concerning negotiations and administration of collective bargaining agreements are binding on member employers. The current collective bargaining agreement between the BSA and the ILA has a six-year term ending September 30, 2010.

In March 2005, the Authority referred to the Massachusetts Attorney General's office the results of an internal audit involving payroll irregularities and other activity among certain ILA members at the Conley Terminal and/ or Black Falcon Terminal. On August 9, 2006, as a result of the Attorney General's investigation, criminal charges were brought against 19 ILA members and one Authority employee. The charges involve allegations of payroll fraud in which individuals either improperly received or conspired to help others improperly receive state unemployment benefits or employment benefits from the ILA. None of the allegations involved the Authority's payroll or Authority-provided benefits. Immediately following the release of these indictments, the Authority took the necessary steps to suspend the indicted Authority employee and remove all indicted ILA members from positions with access to or control over ILA payroll information. The Authority has also reviewed its own internal control procedures relating to its payments made to the ILA through a pay agent and has taken steps to ensure that the fraud alleged could not occur again. The Authority cannot predict the outcome of the criminal investigation; however, the Authority does not expect the matter to have a material effect on its operations or financial position.

Certain users of the Authority's facilities that generate a substantial portion of the Authority's Revenues, such as the air carriers, are dependent for continuation of their operations upon successful management of their own labor relations. These matters are beyond the control of the Authority, and significant labor disputes in these areas could have an adverse effect upon the Revenues of the Authority.

Non-Discrimination, Equal Opportunity and Affirmative Action. The Authority is committed to affirmative action in its hiring of minorities, women, persons with disabilities and Vietnam Era Veterans in order to attract and retain a diverse workforce.

The Authority is committed to equality of economic opportunity and encourages and supports the inclusion of minority, women and disadvantaged business enterprises ("*M/W/DBEs*") in its contracting and procurement opportunities including concessions, construction and design, and goods and services. The Authority's commitment to equality of economic opportunity for M/W/DBEs includes relations with concessionaires, lessees, suppliers, contractors, consultants and others with whom it does business.

The Authority also encourages and supports economic opportunities for the residents of those impacted communities (East Boston, South Boston, Charlestown, Chelsea, Winthrop and Revere) most directly impacted by the operation of the Authority's facilities.

Environmental and Regulatory Considerations

Certain of the activities of the Authority are subject to review, or are otherwise affected, by a variety of environmental protection and other regulatory agencies. These include:

Federal Aviation Administration. The FAA is responsible for the inspection and certification of various airfield facilities and procedures. In particular, federal law requires operators of air carrier airports (including the Authority) to hold a current airport certificate granted by the FAA evidencing satisfactory compliance with numerous operational and safety standards. The Authority holds valid Part 139 certificates from the FAA permitting all current operations at the Airport, Hanscom Field and Worcester Regional Airport. The FAA regulates the imposition, collection and use of PFCs and the FAA also administers federal AIP grants, and monitors compliance with numerous grant conditions. In addition, the FAA provides and maintains navigational aids at the Airport, Hanscom Field and Worcester Regional Airport and has exclusive control over airspace management and air traffic. See "AVIATION INDUSTRY CONSIDERATIONS."

Transportation Security Administration. Created in 2001 by ATSA, and part of the Department of Homeland Security, the TSA is responsible for transportation security nationally. In particular, TSA is required to screen all commercial airline passengers and all baggage loaded onto commercial airplanes, and has promulgated regulations regarding both aviation and maritime security applicable to the Authority's facilities.

Federal Maritime Commission. Pursuant to certain provisions of the Shipping Act of 1984, certain of the Authority's rates, charges and terms for marine terminal services must be filed with the Federal Maritime Commission, which also has jurisdiction to review assessment agreements affecting the maritime industry.

Environmental Protection Agency. The EPA is ultimately responsible for administering air and water pollution control regulations which directly affect operations of the Authority. Pursuant to requirements promulgated by the EPA under the Clean Air Act of 1970 and subsequent amendments thereto, the Authority is subject to certain limitations regarding parking and other activities at the Airport, including heating plant performance standards. See "AIRPORT PROPERTIES – Airport Facilities – Parking Facilities." Under the federal Water Pollution Control Act, the Authority holds permits for certain discharges into Boston Harbor. The Authority (and certain of its tenants, as co-applicants) filed an individual storm water application for the Airport on October 1, 1992 in accordance with the relevant EPA stormwater discharge regulations, which application is still pending. The Authority has initiated what it believes to be the necessary filings and strategies for compliance with all EPA requirements in this regard.

Massachusetts Executive Office of Environmental Affairs. MEPA requires certain public instrumentalities such as the Authority to determine the effect of their activities on the environment and to use all practicable means to

minimize environmental damage. Furthermore, environmental assessment procedures administered by the Executive Office of Environmental Affairs apply to certain of the Authority's projects as well to certain projects, leases or permits authorized by the Authority.

Other Regulatory Matters. Numerous activities of the Authority require approvals of, or are subject to oversight by, state and federal agencies with jurisdiction over historic structures, wetlands, shorelines, harbors and other areas and over contamination and hazardous waste cases. These agencies include the U.S. Coast Guard, the Commonwealth's Coastal Zone Management Office, the Massachusetts Water Resources Authority, the DEP, the U.S. Army Corps of Engineers and conservation and historic preservation commissions in the cities and towns in which the Authority's facilities are located. In addition, the Authority is denominated by law to be "within" the Commonwealth's Executive Office of Transportation for certain administrative purposes expressly provided by law. The Authority also is subject to certain statutes and regulations governing public bidding, health and safety access for the disabled and matters relating to equal opportunity employment.

Local Impact Considerations

The location of the Airport, bounded by residential neighborhoods and mixed residential and commercial areas, as well as wetland and open water habitats, necessitates that airport development and operations be undertaken with a sensitivity to environmental factors. The impact of aircraft operations at the Airport has led to the development of noise abatement programs by the Authority consistent with maintaining high quality air service for the New England area. The programs include noise abatement ground procedures, restrictions on flights by certain aircraft types during late-night hours, development (with the FAA) of noise abatement preferential runway systems and institution of procedures to encourage the air carriers to provide services at the Airport with the quietest aircraft certificated in accordance with federal noise emission abatement standards. These programs have had the result of shifting some services out of the late-night hours, but are not believed by the Authority to have had, or to be likely to have, a material effect on Airport Revenues. Also, the Authority has implemented an extensive soundproofing program involving 37 local schools and more than 9,900 dwelling units as of December 31, 2006, as well as voluntary relocation of residents particularly affected by Airport operations. See "CAPITAL PROGRAM – Airport Improvements – Residential Sound Insulation Program."

A number of noise abatement programs have been instituted at Hanscom Field in order to reduce the impact of aircraft operations on surrounding communities. These programs include a computer-based program to monitor overall noise impact, noise abatement rules and regulations and nighttime fees and operations restrictions implemented in 1981 and amended most recently in 1990, and a 300-foot noise berm constructed adjacent to a residential neighborhood in 1985.

Residential neighborhoods also lie directly adjacent to the Bridge in Charlestown and Chelsea. Bridge operations and maintenance are therefore designed and scheduled (to the extent practicable) in order to minimize environmental and health impacts on community residences.

Financial Considerations

Authority Pension Funding. The Authority's employee benefits are provided for under provisions of Commonwealth law that govern contributory retirement systems for Commonwealth public employees. In July 1978 legislation was enacted creating the Massachusetts Port Authority Employees Retirement System (the "*System*"), which required the Authority to fund its unfunded past service liability over a 20-year period. The Authority made the final payment of such initial unfunded past service liability in June 1998. As of January 1, 2006 the Authority's actuarial accrued liability totaled $317 million, according to the Frozen Entry Age Actuarial Cost Method and Q&A 88 of the Governmental Accounting Standards Board's implementation guide for Statements 25 and 27. The net assets available for plan benefits were $327.7 million ($341.9 million market value) as of December 31, 2005. See Note H to the Financial Statements in APPENDIX A.

Post-Retirement Employee Benefits. The Authority extends post-retirement health benefits to its employees as provided under the Enabling Act and Chapter 32A of the Massachusetts General Laws. An actuarial report prepared for the Authority in May 2007 projected the Accrued Liability for Post Retirement Employment benefits to be $167.5

million to $268.6 million as of July 1, 2006. The Authority recognizes the cost of providing post-retirement health care benefits by expensing the insurance premiums when paid. The Authority is currently studying ways in which to fund and to mitigate this expense. See Note H to the Financial Statements in APPENDIX A.

Payments in Lieu of Taxes. The Enabling Act authorizes and directs the Authority, subject to certain standards and limitations, to enter into agreements to make annual payments in lieu of taxes to the Cities of Boston and Chelsea and the Town of Winthrop. The various payment in lieu of tax agreements are scheduled to expire in 2015 with respect to Boston, 2010 with respect to Chelsea, and 2025 with respect to Winthrop. The Enabling Act, the 1978 Trust Agreement and the payment in lieu of tax agreements provide that the payments under these agreements for any fiscal year may not exceed the balance of revenues remaining for such fiscal year after payment of debt service and required reserve account deposits on outstanding Bonds, payment of operating expenses and payment of required deposits to the Maintenance Reserve Fund.

The Authority and the City of Chelsea amended their existing payment in-lieu-of-taxes agreement in fiscal year 2006 (the "*Chelsea PILOT Agreement*"). Pursuant to the amendment, the term of the Chelsea PILOT Agreement was extended through fiscal year 2010 and provides for the Authority to make an annual payment of $600,000.

In fiscal year 2006, the Authority and the Town of Winthrop entered into an Amended and Restated Payment-In-Lieu-Of-Taxes Agreement (the "*Amended Winthrop PILOT Agreement*"), which extended the base in-lieu-of-tax payments through fiscal year 2025. The Amended Winthrop PILOT Agreement provides for the Authority to make an annual payment of $900,000.

In fiscal year 2006, the Authority and the City of Boston agreed to amend the existing payment in-lieu-of-taxes agreement (the "*Boston PILOT Agreement*") effective July 1, 2005. Pursuant to the amended Boston PILOT Agreement (the "*Amended Boston PILOT Agreement*"), the term of the Boston PILOT Agreement was extended to June 30, 2015 subject to mutual rights to terminate the Amended PILOT Agreement each year after July 1, 2010. The Amended Boston PILOT Agreement provides for the Authority to pay (i) an annual base amount (the "*Base Amount*") of $14,000,000, which, commencing in fiscal year 2007, increases annually by the annual percentage change in the consumer price index, provided that such increase shall be no less than 2%, nor greater than 8%, per year, and (ii) for ten years, an amount of $700,000, which shall not be increased or adjusted. See Note J to the Financial Statements in APPENDIX A.

Risk Management

Under the 1978 Trust Agreement the Authority is required to maintain insurance substantially in compliance with the recommendations of the Risk Management Consultant. See APPENDIX D – Summary of Certain Provisions of the 1978 Trust Agreement – "Insurance." The Authority maintains a program of risk management designed to afford insurance protection meeting the requirements of the 1978 Trust Agreement and of sound business practice at the best available cost. Unlike many United States airport operators, the Authority has pursued a program of insuring in the London insurance market, together with a program of funded deductibles and self-insurance of certain risks. The Authority is licensed by the Commonwealth as a self-insurer for the Authority's workers' compensation risk. The self-insurance program is being administered with assistance from a third party administrator and losses are funded through a dedicated Self-Insurance Account within the Operating Fund under the 1978 Trust Agreement (the "*Self-Insurance Account*").

The Authority's risk management program is designed to provide an appropriate level of protection against catastrophic loss, including direct damage to its Projects, loss of revenue and third party legal liability obligations. The program utilizes a combination of purchased insurance and the Self-Insurance Account to provide this level of protection. The principal areas of risk exposure covered by self-insurance are: insurance policy deductibles, workers' compensation self-insured retention, Owner Controlled Insurance Program workers' compensation deductibles, uninsurable risks (e.g., earthquake above $250.0 million and certain environmental pollution), directors' and officers' liability and excess liability.

Prior to September 11, the Authority's liability insurance and property insurance policies provided coverage for acts of war and terrorism. This coverage was excluded by underwriters shortly thereafter. Subsequently, the

Authority purchased limited, stand-alone coverage for acts of terrorism ($50 million for liability and $100 million for property). On November 26, 2002, President Bush signed into law the Terrorism Risk Insurance Act of 2002 ("*TRIA*"). TRIA effectively nullified all existing exclusions for acts of terrorism carried out by foreign terrorists. All insured entities covered by TRIA were given the opportunity to continue this coverage upon payment of an additional premium quoted by underwriters. Following the recommendations of the Authority's Risk Management Consultant, the Authority has obtained terrorism insurance under either TRIA, where available and not cost prohibitive, or by purchasing coverage under a War Risk buy back option.

The Authority maintains a Self-Insurance Account to cover all areas of self- insurance. See APPENDIX D – Summary of Certain Provisions of the 1978 Trust Agreement – "Insurance." As of December 31, 2006, the balance in the Self-Insurance Account was $40.3 million. Annual contributions, consistent with the recommendations of the Authority's risk management consultant, are made to this account as part of the Authority's annual budget process. Losses within the self-insurance area are administered by Authority personnel, use of outside adjusters on a case specific basis and a third-party administrator for certain workers' compensation losses. The Authority's most recent annual Risk Management Assessment Report states that the extent of the Authority's funding of future liabilities within the Self Insurance Account represents what the Authority's Insurance Consultant considers to be a "best practice" among complex public agencies and that the observed frequency of loss for self-insured risks (other than workers' compensation) is lower than the expected magnitude of individual observed losses and is well within the Authority's ability to retain such losses. For Workers Compensation, observed losses within the working (retained) layer are predictable and level over time which makes this an appropriate area for risk retention. The Report also notes that the combination of internal administration and third-party administration of self-insured claims is sound and cites a demonstrated reduction in loss adjustment expenses, particularly, in the general liability and workers' compensation areas.

A major component of the Authority's insurance coverage program is an Owner's Controlled Insurance Program ("*OCIP*") for selected capital projects. The OCIP provides an alternative to the traditional approach of reimbursing contractors for the cost of insurance as part of contractors' overhead. The OCIP is designed to result in significant cost savings, broader coverage with higher limits, more efficient loss control and injury management, improved claims management and overall improved oversight of administration. The major areas of coverage provided by OCIP are Project Builders' Risk, Airport Contractors' General Liability, Contractors' Pollution Legal Liability and Contractors' Workers Compensation. Individual contractors are responsible for providing Automobile Liability/Physical Damage and Contractors' Equipment Coverage.

The market for public liability and property coverage has stabilized and, for some coverages, softened. While insurance markets are cyclical, the Authority believes that its proactive risk management program is critical in its effort to contain cost and will continue to yield better results than alternative approaches.

Investment Policy

All investments of Authority funds are made in accordance with the provisions of the 1978 Trust Agreement or the PFC Trust Agreement (defined herein) and the investment policy adopted in 2000 by the Authority (the "*Investment Policy*"). The goals of the Investment Policy, in descending order, are (1) to preserve capital, (2) to provide liquidity to meet payment obligations, and (3) to generate investment income. As authorized by the Investment Policy, the Authority's investments are overseen by the Investment Oversight Committee, chaired by the Director of Administration and Finance. The Investment Oversight Committee meets quarterly and determines the general strategies for investment activities and monitors investment results against external benchmarks. Implementation of the Authority's investment strategies is delegated to the monthly Investment Strategy Committee meetings, and to the Director of Finance and her staff, pursuant to procedures promulgated by the Investment Oversight Committee. Certain funds that will be used to satisfy debt service reserve requirements and for debt service or capital projects are invested in long-term instruments. Annual cash flow projections are developed for all capital projects and bond funds. Investment maturities are scheduled to comply with the investment goals of the Investment Policy.

Financial Hedge Policy

In October 2004, the Members of the Authority approved a formal Financial Hedging Policy which provides general guidelines regarding the use, procurement and execution of all interest rate swaps, options, caps, collars and related financial transactions ("*Financial Hedges*") by the Authority. No Financial Hedge may be executed without the approval of the Members of the Authority. Prior to seeking the approval of the Authority of any proposed Financial Hedge, the Investment Oversight Committee shall undertake an identification and evaluation of the financial benefits and risks involved in the Financial Hedge transaction, including certain enumerated risks, and summarize them for the Members of the Authority. Financial Hedges may not be entered into for speculative purposes, where the Authority does not have sufficient liquidity to terminate an existing Financial Hedge at current market values, or where there is insufficient price transparency to permit reasonable valuation of the Financial Hedge. Counterparty exposure may not exceed prudent limits, and only entities rated "A" or better (or guarantors of such entities) may be counterparties. Financial Hedges are to be used only to lower the cost of the Authority's borrowing; to reduce exposure to changes in interest rates; or to manage the Authority's credit exposure to existing Financial Hedge counterparties. Currently, the Authority has no outstanding Financial Hedges.

OTHER OBLIGATIONS

The following describes the indebtedness and obligations of the Authority that are not secured under the 1978 Trust Agreement or that are secured on a subordinated basis. See APPENDIX A – Financial Statements of the Authority for further information.

PFC Revenue Bonds

In June 1999, the Authority issued its PFC Revenue Bonds, Series 1999A and 1999B (the "*1999 PFC Bonds*") pursuant to the PFC Trust Agreement by and between the Authority and the PFC Trustee, dated as of May 6, 1999, and a First Supplemental Agreement by and between the Authority and the PFC Trustee dated as of May 6, 1999. The 1999 PFC Bonds and any additional bonds that may be issued under the PFC Trust Agreement on a parity with the 1999 PFC Bonds are secured by the PFCs imposed by the Authority at the Airport. The 1999 PFC Bonds are not secured by the Revenues which secure the Bonds, and PFCs are not included in such Revenues.

As of December 31, 2006, the 1999 PFC Bonds in a principal amount of $190.3 million were the only PFC Bonds outstanding under the PFC Trust Agreement. Contemporaneously with the issuance of the 2007 Bonds, however, the Authority expects to issue additional PFC Revenue Bonds and PFC Revenue Refunding Bonds pursuant to the PFC Trust Agreement on a parity with the 1999 PFC Bonds. After such issue, the Authority expects that the total principal amount of its PFC Bonds outstanding will be approximately $236.3 million.

Special Facilities Revenue Bonds

The Authority has issued, and expects to issue, special facilities revenue bonds to finance various capital projects on a non-recourse basis. The principal of and interest on the special facilities revenue bonds issued by the Authority are special obligations of the Authority, payable solely from the sources provided; none of such special facilities bonds is secured by the Revenues of the Authority. Each special facility bond issue is secured differently and under a separate trust agreement.

As of June 30, 2006, the Authority had approximately $715.5 million of special facilities revenue bonds outstanding, in eight separate series as follows:

- Special Facilities Revenue Bonds (Delta Air Lines, Inc. Project), Series 2001A, 2001B and 2001C
- Special Facilities Revenue Refunding Bonds (Harborside Hyatt Conference Center and Hotel Project), Series 2001-A (Tax-Exempt) and 2001-B (Taxable)
- Special Facilities Revenue Bonds (USAir Project), Series 1996A and Special Facilities Revenue Bonds (US Airways Project), Series 1999
- Special Facilities Revenue Bonds (BOSFUEL Project), Series 1997 (the "*BOSFUEL Project Bonds*")

As a result of United Air Lines filing for bankruptcy protection in December 2002, the trustee for the Authority's $80,500,000 Special Facilities Revenue Bonds (United Air Lines, Inc. Project), Series 1999-A (the "*United Bonds*") issued notice that the United Bonds were in default. Once the United Airlines Plan of Reorganization was approved by the bankruptcy court on February 1, 2006, this debt was discharged, along with other unsecured debt, and the bondholders are entitled to distribution along with other unsecured creditors.

On March 1, 2007, Delta affirmed a ten-year amended and restated lease (the *"Lease"*) at the Airport for 12 of the 18 contact gates in Terminal A and four of the Terminal's seven regional jet positions. The Lease is retroactive to July 1, 2006, and was approved by the bankruptcy court, by the Authority, and by Ambac Assurance Corporation ("*Ambac*"), as insurer of certain Terminal A special facility bonds (the *"Delta Bonds"*) issued by the Authority for Delta's benefit to finance Terminal A. To date, during fiscal year 2007, Delta has paid the specified rental rate for the terminal space it occupies and has paid all landing fees that are due. Since its bankruptcy filing, Delta has paid a portion of amounts due with respect to the Delta Bonds, and subsequently all such amounts have been paid from the Delta Bonds debt service reserve fund, except for a payment in January 2006 by Ambac under the bond insurance policy, which was reimbursed by Delta on March 1, 2007. The Authority is under no obligation to assume any liability for the Delta Bonds or to direct revenue, other than a portion of the Terminal A airline space rental revenue, to service the debt on the Delta Bonds.

On March 15, 2007, the Authority authorized the issuance of up to $120.0 million in Special Facilities Revenue Bonds by BOSFUEL. This issue would currently refund the $98.4 million of the Series 1997 Bonds that are outstanding, and provide approximately $15.6 million in proceeds to install new jet fuel hydrant loops around Terminal B, Pier A and Terminal C Piers B and C, and three pipeline feeds across Taxiway A. The issue is currently expected to close before June 30, 2007.

Subordinated Revenue Bonds

On December 29, 2000 and January 2, 2001, as a component of the ParkEX Acquisition, the Authority issued its Subordinated Revenue Bonds, Series 2000-A, 2000-B and 2000-C, and Series 2001-A, 2001-B and 2001-C, respectively (collectively, the "*Subordinated Bonds*"). The Subordinated Bonds, currently outstanding in the aggregate principal amount of $74.0 million, are payable solely from funds on deposit in the Improvement and Extension Fund and in a separate account not subject to the pledge of the 1978 Trust Agreement or the PFC Trust Agreement. At the issuance of the Subordinated Bonds, $12.0 million was invested pursuant to two guaranteed investment contracts which at their maturity are expected to provide for the $74.0 million principal of the Subordinated Bonds at their respective maturities. The Subordinated Bonds are subordinate to the 2007 Bonds and all other outstanding Bonds issued under the 1978 Trust Agreement.

Commercial Paper

On March 10, 2005, the Authority renewed its commercial paper program in an aggregate amount not to exceed $139.0 million, and entered into a ten-year extension of the Letter of Credit and Reimbursement Agreement with WestLB AG, New York Branch, subject to review after three, six and nine years, to provide security for the commercial paper program. As of April 30, 2007, the Authority has outstanding $89.0 million of commercial paper notes, none of which will be refunded with proceeds of the 2007 Bonds. The obligations of the Authority with respect to its commercial paper notes are secured by the Improvement and Extension Fund and the proceeds of Bonds subsequently issued. While PFCs are not pledged to secure the Authority's commercial paper, the Authority currently expects to repay a portion of the notes from the PFC Capital Fund.

On April 11, 2007, the Authority renewed its commercial paper program in an aggregate amount to exceed $150.0 million, and approved a five-year Letter of Credit and Reimbursement Agreement with The Bank of New York. The substitution of the Letter of Credit provided by The Bank of New York will occur on June 1, 2007.

LEGISLATIVE DEVELOPMENTS

From time to time legislation has been introduced in the Massachusetts Legislature for the purpose of altering the responsibilities of the Authority, reducing its independence, limiting its planning and operations, taxing its

commercial tenants directly, or requiring it to make payments to other governmental entities in the Commonwealth, including bills relating to the Ted Williams Tunnel described elsewhere herein. Some legislation to such effect has been enacted, most notably 1995, 1997 and 2000 statutes that require the Authority to make payments with respect to the Ted Williams Tunnel in exchange for the transfer to the Authority of certain assets, a 2004 statute requiring the Authority, in exchange for payment of one dollar, to accept ownership of and operational responsibility for the Bremen Street Park being constructed by the CA/T Project, a 2004 statute that, effective July 1, 2007, modifies the composition of the Members of the Authority and the selection of its Chairman, and 1978 and 1980 statutes that require the Authority to make annual in lieu of tax payments to the municipalities of Boston, Chelsea and Winthrop. The statutes requiring payments with respect to the Ted Williams Tunnel protected holders of the Authority's bonds by expressly requiring that such payments be consistent with the Enabling Act, the 1978 Trust Agreement and federal aviation law, and by expressly authorizing 1978 Trust Agreement requirements that payments in lieu of taxes not be made unless and until current operating expenses, interest and sinking fund obligations and certain other obligations of the Authority have been provided for. It is not possible to predict whether any such legislation will be enacted in the future. In addition, the Authority is subject to state and federal laws of general application, changes to which could have a material effect on the operations or financial position of the Authority. See "AVIATION INDUSTRY CONSIDERATIONS" and "GENERAL OPERATIONAL FACTORS."

LITIGATION

No litigation is pending or, to the knowledge of the Authority, threatened against or affecting the Authority seeking to restrain or enjoin the issuance, sale or delivery of the 2007 Bonds or in any way contesting or affecting the validity of the 2007 Bonds.

On September 11, 2001, terrorists hijacked American Airlines flight 11 and United Airlines flight 175 and flew them into the World Trade Center in New York, New York. The terrorist acts caused the deaths of approximately 3,000 persons, unknown numbers of personal injuries, and massive property damage. Both flights originated at Logan Airport.

In September 2001, Congress passed the Air Transportation Safety and System Stabilization Act, which provides, among other things, that victims who suffered physical injury or death as a result of the events of September 11 could file a claim with a newly created Victim Compensation Fund (the "*Fund*"). Those who sought such compensation waived the right to file a civil lawsuit. The Fund does not apply to claims for property damage, business interruption, or the like. Approximately 98% of claimants eligible for compensation from the Fund filed a claim with the Fund.

In November 2001, Congress passed the ATSA, which provides a limitation on liability of various entities, including airport sponsors such as the Authority, for the events of September 11. Specifically, the liability of an airport sponsor for those events "shall not be in an amount greater than the limits of liability insurance coverage maintained by that … airport sponsor." The Authority has insurance in effect to cover these incidents in the amount of $500,000,000 per occurrence, and consequently, under ATSA, the Authority's liability, if any, would be limited to such amounts. To the Authority's knowledge, the Authority's insurer has received copies of all complaints and Notices of Claim and/or any other form of notification to the Authority by an individual or entity claiming to have suffered a loss. Furthermore, to the Authority's knowledge, its insurer has agreed to defend any such claims and has not reserved its rights to deny coverage with respect to any of those claims, although the insurer has reserved its rights with respect to (i) the number of occurrences, (ii) indemnification of the Authority against any award of punitive damages, and (iii) the Authority's rights as a named additional insured under other policies of insurance, including policies of the Authority's tenants and licensees.

As of March 31, 2007, there were approximately 24 wrongful death lawsuits, two personal injury lawsuits, 13 property damage lawsuits and four cross claims against the Authority and other defendants. A number of other wrongful death lawsuits against the Authority and other defendants have been settled. These settlements have been achieved without any financial contribution from the Authority or its insurer though the settling plaintiffs have provided the Authority with a release of all claims related to the events of September 11.

The plaintiffs in the property damage lawsuits include, but are not limited to, the Port Authority of New York and New Jersey, owner of the World Trade Center complex (the "*WTC*"), World Trade Center Properties, LLC, the

lessee of the WTC, and insurers for various businesses located in or around the WTC. The statute of limitations of any such lawsuits expired on September 11, 2004.

Absent the limitation on liability in ATSA, the amount of potential damages that could be awarded against the Authority if it were found liable in these lawsuits, based upon the total liability claimed, is an amount that would have a significant, materially adverse effect on the financial condition of the Authority. While the Authority cannot predict the outcome of any of these lawsuits or subsequent challenges, if any, to ATSA, it believes it has meritorious defenses to these actions and will continue to review and assess the various claims asserted.

On March 17, 2006, the Authority was served with a class action complaint by Bridge users who are non-recipients of the Fast Lane transponder resident toll discounts, alleging unspecified damages arising from Fast Lane transponder toll discounts for residents of Chelsea and Charlestown who use the Bridge. While the complaint does not specify the amount of damages alleged, the Authority believes that the damages sought could be significant. On May 3, 2007, the Massachusetts Superior Court granted the Authority's motion to dismiss the complaint. The plaintiffs have 60 days to file an appeal of the dismissal. While the Authority cannot predict the outcome of an appeal, the Authority believes it has meritorious defenses in this action, and it will continue to vigorously defend against the various claims asserted. The Authority does not believe that the outcome will materially affect the Authority's results of operations or financial condition.

The Authority also is engaged in numerous matters of routine litigation. These matters include personal injury and property damage claims for which the Authority's liability is covered in whole or in part by insurance. Others include such matters as disputes with employees; disputes with contractors, subcontractors, engineers and others arising out of construction and maintenance of its properties; disputes over leases and concessions; and property, theft and damage claims arising from the Authority's parking operations, as to which the Authority is self-insured. The Authority does not expect that these matters will require any amounts to be paid which, in the aggregate, will have a material effect on the operations or financial position of the Authority.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by UBS Securities LLC on behalf of the Authority relating to the computation of forecasted receipts of principal of and interest on the securities on deposit in the Refunding Escrow Fund and the forecasted payments of principal and interest to redeem the Refunded Bonds was examined by The Arbitrage Group, Inc. Such computations were based solely upon schedules and information supplied by UBS Securities LLC on behalf of the Authority. The Arbitrage Group, Inc. has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

TAX EXEMPTION

In the opinion of Bond Counsel, under existing law, interest on the 2007 Bonds is not included in gross income for federal income tax purposes, except for interest on any 2007-C Bond during any period it is held by a "substantial user" of the facilities financed with the proceeds of the 2007-C Bonds or a "related person" to such a substantial user within the meaning of section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). See APPENDIX F – Form of Opinion of Bond Counsel. However, the interest on the 2007-C Bonds (but not the 2007-A Bonds) is treated as an item of tax preference for purposes of calculating the alternative minimum tax imposed on certain taxpayers, and interest on the 2007-A Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. Bond Counsel expresses no opinion as to other federal tax consequences resulting from holding the 2007 Bonds.

The Internal Revenue Code of 1986, as amended (the "*Code*"), imposes certain restrictions and requirements relating to the exclusion from federal gross income of interest on obligations such as the 2007 Bonds, including restrictions on the use and investment of proceeds of the 2007 Bonds and the requirement for the payment of rebate to the federal government in certain situations. The Authority has made certain representations and covenants with respect to such restrictions and requirements imposed by the Code. Inaccuracy of these representations or failure to

comply with these covenants could cause interest on the 2007 Bonds to become subject to federal income taxation, retroactive to the date of their issuance. Bond Counsel has relied upon such representations and covenants in rendering its opinion.

Potential purchasers should be aware of certain potential collateral consequences under federal tax law for holders of the 2007 Bonds. Interest on the 2007 Bonds is included in the measure of the foreign branch profits tax imposed upon certain foreign corporations and may be included in passive investment income subject to federal income taxation under provisions of the Code applicable to certain S corporations. Interest on the 2007 Bonds may be included in the modified adjusted gross income of certain recipients of Social Security and Railroad Retirement benefits for the purpose of determining whether a portion of such benefits shall be included in the taxable income of such recipients. In addition, certain otherwise deductible underwriting losses of property and casualty insurance companies will be reduced by a portion of the interest received by such companies on the 2007 Bonds, and no deduction will be allowed for interest on indebtedness incurred or continued to purchase or carry the 2007 Bonds or, in the case of a financial institution, that portion of such institution's interest expense that is allocated to interest on the 2007 Bonds.

In the opinion of Bond Counsel, interest on the 2007 Bonds and any profit made from their sale are exempt under existing law from Massachusetts personal income taxes, and the 2007 Bonds are exempt from Massachusetts personal property taxes. Prospective purchasers should be aware that the statutory framework on which this exemption from Massachusetts taxation is based is similar to that at issue in Department of Revenue of Kentucky v. Davis, 197 S.W. 3d 557 (Ky. App. 2006), cert. granted 550 U.S. ___ (May 21, 2007), in which the Kentucky court held that a statute which provided more favorable income tax treatment for holders of bonds issued by Kentucky issuers than for holders of out-of-state municipal bonds violated the Commerce Clause of the United States Constitution. Should the United States Supreme Court affirm the holding of the Kentucky court, subsequent Massachusetts judicial decisions and/or legislation designed to ensure the constitutionality of Massachusetts tax law could, among other alternatives, adversely affect the Massachusetts tax exemption of outstanding municipal obligations, including the 2007 Bonds, to the extent constitutionally permissible, or result in the exemption from Massachusetts income tax of interest on non-Massachusetts municipal obligations, either of which could affect the market price of the 2007 Bonds. Bond Counsel expresses no opinion as to other Massachusetts tax consequences with respect to the 2007 Bonds. Potential purchasers should be aware, however, that the 2007 Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the 2007 Bonds and the interest thereon are included in the measure of Massachusetts corporate excise and franchise taxes. Bond Counsel expresses no opinion as to the tax consequences under the laws of any state other than The Commonwealth of Massachusetts with respect to the 2007 Bonds.

For federal and Massachusetts tax purposes, interest includes original issue discount, which with respect to a 2007 Bond is generally equal to the excess, if any, of the stated redemption price at maturity of such 2007 Bond over its initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of all 2007 Bonds with the same maturity was sold. Original issue discount accrues actuarially over the term of a 2007 Bond. Holders should consult their own tax advisers about the computation and consequences of original issue discount.

The excess, if any, of the tax basis of the 2007 Bonds to a purchaser (other than a purchaser who holds such 2007 Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is "bond premium." For federal income tax purposes, bond premium is amortized over the term of the 2007 Bonds, is not deductible and reduces the purchaser's adjusted tax basis. 2007 Bond purchasers should consult their tax advisers about the tax consequences of bond premium.

Payments of interest on, and proceeds of the sale, redemption or retirement of, tax-exempt obligations such as the 2007 Bonds are required to be reported to the Internal Revenue Service in certain cases. In addition, such payments and proceeds may be subject to backup withholding if paid to a bondholder that (i) fails to provide an accurate Form W-9, "Request for Taxpayer Identification Number and Certification," or valid substitute form, or (ii) has been notified by the Internal Revenue Service of a failure to report all interest and dividends. The reporting and backup withholding requirements do not affect the excludability of interest on the 2007 Bonds from gross income for federal income tax purposes.

No assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any regulatory or administrative

development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the 2007 Bonds. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 2007 Bonds may adversely affect the value of, or the tax status of interest on, the 2007 Bonds.

On the date of delivery of the 2007 Bonds, the Underwriters for such Bonds will be furnished with an opinion of Bond Counsel substantially in the form attached hereto as APPENDIX F – Form of Opinion of Bond Counsel.

ELIGIBILITY FOR INVESTMENT

The Enabling Act provides that the 2007 Bonds are eligible for investment by all Massachusetts insurance companies, trust companies in their commercial departments, banking associations, executors, trustees and other fiduciaries.

RATINGS

The 2007 Bonds are expected to be assigned ratings of "AAA" by Fitch Ratings ("*Fitch*"), "Aaa" by Moody's Investors Service, Inc. ("*Moody's*") and "AAA" by Standard & Poor's ("*S&P*"), respectively, based on the Bond Insurance Policy provided by the Bond Insurer. See "BOND INSURANCE." The 2007 Bonds have been assigned ratings of "AA" by Fitch, "Aa3" by Moody's and "AA-" by S&P, without regard to the Bond Insurance Policy. Such ratings reflect only the respective views of such organizations and an explanation of the significance of such ratings may be obtained from the rating agency furnishing the same. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by any or all of such rating agencies if, in its or their judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2007 Bonds.

FORWARD-LOOKING STATEMENTS

If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates" and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances affecting airports and the airline industry, many of which are beyond the control of the Authority. These forward-looking statements speak only as of the date of this Official Statement. The Authority disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Authority's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

CERTAIN LEGAL MATTERS

The unqualified approving opinion of Ropes & Gray LLP, Boston, Massachusetts, Bond Counsel to the Authority, will be furnished upon delivery of the 2007 Bonds; the proposed form of such opinion is set forth in APPENDIX F. Certain legal matters will be passed on for the Authority by David S. Mackey, Esquire, its Chief Legal Counsel, and by Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, its Disclosure Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts.

INDEPENDENT AUDITORS

The financial statements of the Authority as of and for the year ended June 30, 2006 and comparative data for fiscal years 2005 and 2004 included in APPENDIX A of this Official Statement have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their report appearing in APPENDIX A.

MARKET ANALYSIS AND REVIEW OF AIRPORT NET REVENUES

The Boston-Logan International Airport Market Analysis set forth in APPENDIX B was prepared by Simat, Helliesen & Eichner, Inc., Cambridge, Massachusetts in connection with the issuance of the 2007 Bonds and the 2007 PFC Bonds. Such study is set forth herein in reliance upon the knowledge and experience of such firm as airport consultants.

The Review of Airport Net Revenues Forecasts set forth in APPENDIX C was prepared by Jacobs Consultancy Inc., Burlingame, California, in connection with the issuance of the 2007 Bonds. The review should be read in its entirety for an understanding of the forecasts and the key assumptions therein. Such review is set forth herein in reliance upon the knowledge and experience of such firm as airport financial consultants.

UNDERWRITING

The 2007 Bonds are being purchased by UBS Securities LLC, Bear, Stearns & Co. Inc., Citigroup Global Markets Inc., and Lehman Brothers Inc. (collectively, the "*Underwriters*"), for whom UBS Securities LLC is acting as representative. The Underwriters have agreed, subject to certain conditions, to purchase all of the 2007 Bonds from the Authority at an aggregate underwriters' discount from the initial public offering prices or yields set forth on page (i) hereof equal to $421,837.90 and to reoffer such 2007 Bonds at public offering prices not higher than or at yields not lower than those set forth on page (i) hereof. The Underwriters are obligated to purchase all such 2007 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract for the 2007 Bonds, the approval of certain legal matters by counsel and certain other conditions. The 2007 Bonds may be offered and sold by the Underwriters to certain dealers (including dealers depositing such 2007 Bonds in unit investment trusts or mutual funds, some of which may be managed by the Underwriters) and certain dealer banks and banks acting as agents at prices lower (or yields higher) than the public offering prices (or yields) set forth on page (i) of this Official Statement. Subsequent to such initial public offering, the Underwriters may change the public offering prices (or yields) as they may deem necessary in connection with the offering of such 2007 Bonds.

FINANCIAL ADVISOR

Government Finance Associates, Inc. (the "*Financial Advisor*") serves as independent financial advisor to the Authority on matters relating to debt management. The Financial Advisor is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiated instruments. The Financial Advisor has provided advice as to the plan of financing and the structuring of the 2007 Bonds and has reviewed and commented on certain legal documentation, including this Official Statement. The advice on the plan of financing and the structuring of the 2007 Bonds was based on materials provided by the Authority and other sources of information believed to be reliable. The Financial Advisor has not audited, authenticated or otherwise verified the information provided by the Authority or the information set forth in this Official Statement or any other information available to the Authority with respect to the appropriateness, accuracy or completeness of disclosure of such information or other information and no guarantee, warranty or other representation is made by the Financial Advisor respecting the accuracy and completeness of or any other material related to such information and this Official Statement.

CONTINUING DISCLOSURE

1978 Trust Agreement Information

The Authority is required by the 1978 Trust Agreement to prepare, file with the Trustee and mail to all Bondholders of Record (DTC or DTC's partnership nominee, as long as the 2007 Bonds are so registered), within 60 days of the end of each fiscal year, a report setting forth, among other things, the status of all funds and accounts created under the 1978 Trust Agreement, and to prepare, file with the Trustee and mail to all such Bondholders of Record within three months of the end of each fiscal year a report on the audit of the books and accounts of the Authority by the Authority's independent public accountants. The Authority is also required by the 1978 Trust Agreement to send certain documents and reports to all Bondholders of Record. The Director of Administration and Finance of the Authority, or his or her designee from time to time, shall be the contact person on behalf of the

Authority from whom the foregoing information, data and notices may be obtained. The name, address and telephone number of the initial contact person are John P. Pranckevicius, Director of Administration and Finance and Secretary-Treasurer, Massachusetts Port Authority, One Harborside Drive, Suite 200S, East Boston, Massachusetts 02128-2909, Tel: (617) 568-5000.

Continuing Disclosure Undertakings

The Authority has undertaken for the benefit of the owners of the 2007 Bonds to provide certain continuing disclosure pursuant to the provisions of Rule 15c2-12(b)(5) under the Securities Exchange Act of 1934 (as amended, the "*Rule*"). Specifically, the Authority and U.S. Bank National Association, as Dissemination Agent, have executed and delivered a Continuing Disclosure Agreement dated as of August 1, 1997 (the "*Continuing Disclosure Agreement*") for the benefit of the owners of all Bonds (including the 2007 Bonds) issued by or on behalf of the Authority which are designated by resolution of the Authority as subject to and having the benefits of the Continuing Disclosure Agreement. The Continuing Disclosure Agreement requires the Authority to provide, or cause to be provided, annual financial information and operating data and notices of material events with respect to the 2007 Bonds in accordance with the Rule. See APPENDIX E – Form of Continuing Disclosure Agreement.

In 1997 in connection with the issuance of the BOSFUEL Project Bonds, the Authority agreed to provide annual updated data with respect to certain information regarding the Airport. Also, in connection with the issuance of its 1999 PFC Bonds, the Authority agreed to provide annual updated data with respect to certain information regarding the Authority and the Airport.

In order to provide certain continuing disclosure with respect to the 2007 Bonds in accordance with the Rule, the Authority has also entered into an Agreement for the benefit of the Holders of the 2007 Bonds with Digital Assurance Certification, L.L.C. ("*DAC*"), under which the Authority has designated DAC as Disclosure Dissemination Agent.

As of the date hereof, the Authority is in full compliance with the terms of each of its continuing disclosure undertakings.

The execution and delivery of this Official Statement have been duly authorized by the Authority.

MASSACHUSETTS PORT AUTHORITY

By: /s/ *John A. Quelch*
John A. Quelch, Chairman

By: /s/ *Thomas J. Kinton, Jr.*
Thomas J. Kinton, Jr., Chief Executive Officer and Executive Director

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PRICEWATERHOUSECOOPERS

Report of Independent Auditors

To the Members of the Massachusetts Port Authority:

In our opinion, the accompanying balance sheets and the related statements of revenues, expenses and changes in net assets, and of cash flows of the Massachusetts Port Authority (the "Authority") (a public instrumentality of The Commonwealth of Massachusetts) which collectively comprise the Authority's basic financial statements, present fairly, in all material respects, the respective financial position of the Authority at June 30, 2006 and June 30, 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Management's Discussion and Analysis on pages 3 through 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The information presented on pages 61 to 64 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

Boston, Massachusetts
October 2, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

Introduction

The following discussion and analysis of the financial performance and activity of the Massachusetts Port Authority (the "Authority") is intended to provide an introduction to and an overview and analysis of the basic financial statements of the Authority for the year ended June 30, 2006 ("fiscal year 2006" or "FY06") with selected comparative information for the year ended June 30, 2005 ("fiscal year 2005" or "FY05") and for the year ended June 30, 2004 ("fiscal year 2004" or "FY04"). The management of the Authority has prepared this discussion, and it should be read in conjunction with the financial statements and the notes thereto, which follow this section. Management has established and maintains controls and procedures designed to ensure that material information required to be disclosed by the Authority in its annual financial statements is recorded, processed, summarized and reported to management in a timely manner. Management has reviewed the Authority's current controls and procedures within the past ninety days and believes that such controls and procedures are adequate in order to record, process, summarize and report to management in a timely manner material information required to be disclosed by the Authority in its annual financial statements.

The Authority was created by and exists pursuant to Chapter 465 of the Massachusetts Acts of 1956 (as amended to date, the "Enabling Act"), and is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the "Commonwealth"). The Enabling Act and the Trust Agreement dated as of August 1, 1978, as amended (as so amended, the "1978 Trust Agreement") between the Authority and U.S. Bank National Association (as successor to State Street Bank and Trust Company), as trustee, and the PFC Revenue Bond Trust Agreement, dated as of May 6, 1999, as amended (as so amended, the "PFC Trust Agreement") between the Authority and The Bank of New York, as trustee, govern the disposition of cash revenues to the various funds established under the 1978 Trust Agreement and the PFC Trust Agreement, and restrict the use of revenues credited to such funds. The Enabling Act provides that the Authority shall consist of seven Members appointed by the Governor of the Commonwealth. The Authority's financial statements are not a component of the Commonwealth's financial statements.

The Authority's facilities include airport properties, consisting of Boston-Logan International Airport (the "Airport" or "Logan Airport") and Laurence G. Hanscom Field ("Hanscom Field"); the Maurice J. Tobin Memorial Bridge (the "Bridge"); and various port properties (the "Port") located in Charlestown, South Boston, and East Boston. The Authority also operates the Worcester Regional Airport pursuant to an operating agreement (the "Worcester OA") among the Authority and the City of Worcester, Massachusetts and the Worcester Airport Commission.

Logan Airport is the most active airport in New England and provides both international and domestic commercial service. It is the primary source of the Authority's revenues and net revenues. Hanscom Field is the region's premier general aviation airport and provides niche commercial service. Worcester Regional Airport serves the air transport needs of Massachusetts's second largest city. The Port of Boston is New England's major port and provides a full range of services, from cruise ship to container ship handling. The Bridge is one of Greater Boston's primary cross-harbor roadway connections and is a part of U.S. Route 1. In addition to operating its facilities, the Authority is committed to providing the modern transportation infrastructure necessary to support the needs of Boston, Massachusetts and New England.

The Authority is self-supporting and uses revenues from landing fees, parking fees, fees from terminal and other rentals, revenues from concessions, Bridge tolls, ground rents, and other fees and charges to

fund operating expenses. The Authority has no taxing power and is not taxpayer funded. The Authority's capital program is funded by bonds and notes issued by the Authority, federal grants, and Authority revenues, including passenger facility charges ("PFCs"). The Authority's bonds are secured solely by the Authority's revenues.

The Financial Statements

The Authority's financial report includes three financial statements: the Balance Sheets; the Statements of Revenues, Expenses and Changes in Net Assets; and the Statements of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB").

The Balance Sheets demonstrate that the Authority's assets equal liabilities plus net assets. The net assets are displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. The component of net assets comprising invested in capital assets, net of related debt, includes restricted capital assets, is net of accumulated depreciation and reduced by the outstanding balances of any outstanding debt that is attributable to the acquisition, construction or improvement of those assets.

The Statements of Revenues, Expenses and Changes in Net Assets categorize revenues and expenses as either operating or non-operating based upon management's policy, as defined by the Enabling Act and the 1978 Trust Agreement, as to what constitutes the Authority's primary operations. Certain sources of the Authority's revenues, including PFCs, investment income and capital grants are reported as non-operating revenues and their use is restricted. Operating revenue for the years ended June 30, 2006, 2005 and 2004 totaled $497.6, $460.6 and $415.0 million, respectively. Operating expense for the years ended June 30, 2006, 2005 and 2004 totaled $453.8, $420.6 and $381.3 million, respectively. In fiscal year 2006, the Authority had net non-operating expenses of $5.4 million comprised of revenues of $69.9 million and expenses of $75.3 million. In fiscal year 2005, the Authority realized net non-operating expenses of $12.7 million comprised of revenues of $52.2 million and expenses of $64.9 million and in fiscal year 2004, the Authority realized net non-operating expenses of $15.7 million, comprised of revenues of $44.1 million and expenses of $59.8 million. Capital grant revenues for the years ended June 30, 2006, 2005 and 2004 are $36.2, $47.7 and $90.1 million, respectively.

The Statements of Cash Flows present information showing how the Authority's cash and cash equivalents position changed during the fiscal year. The Statements of Cash Flows classify cash receipts and cash payments as resulting from operating activities, capital and related financing activities, and investing activities. Cash and cash equivalents on June 30, 2006 had a book value of $111.2 million. The comparable figures for June 30, 2005 and June 30, 2004 were $181.9 million and $117.8 million, respectively.

Authority's Management Highlights

During fiscal year 2006 the growth of passengers at Logan International Airport moderated as the total climbed to just below the pre-September 11, 2001 ("9/11") figure. In fiscal year 2006, a total of 27.4 million passengers traveled through Logan Airport, compared to 27.7 million in fiscal year 2000. Compared to the prior fiscal year, the number of passengers at Logan Airport increased by 2.2% in fiscal year 2006, while between fiscal year 2004 and fiscal year 2005 the number climbed by 9.4%. During fiscal year 2006, management focused on completing new facilities to better accommodate Logan's increasing number of passengers. The new Terminal A facility, new airport roadways, a new airport public mass transit station (built by the Massachusetts Bay Transportation Authority ("MBTA")), and Silver Line bus service to South Boston and to South Station (operated in collaboration with the MBTA)

saw their first complete year of operation. Construction also continued on two other key projects during fiscal year 2006: Runway 14/32, a unidirectional runway with operations solely over Boston Harbor, reached the 65% construction completion mark. At the Central Garage, 1,400 new public parking spaces were opened to the public on March 15, 2006 as a major phase of construction was completed on the repair and expansion of the Central Garage. The total project, which will add three floors containing 2,800 new spaces and improved customer amenities, is 73% complete. A convenient new parking payment system, Exit Express, coupled with a preferred parker card and reservation system (Parking PASSport) have been installed and 77% of Logan's parkers now use this system. The Logan construction agenda also focused on security infrastructure projects including improved access control and perimeter security measures.

Staff renegotiated all three statutorily required Payment-in-Lieu-of-Tax ("PILOT") agreements with the cities of Boston and Chelsea and the Town of Winthrop during fiscal year 2006. The Boston agreement has a ten year term and an estimated value of $167 million. The Winthrop agreement extends for 20 years with an estimated value of $18 million and Chelsea's five year agreement addendum will cost approximately $3 million. These agreements should provide long term fiscal stability for both the Authority and the communities, while improving Massport's relationships with its neighbors.

In May 2006, Craig P. Coy announced his resignation as Executive Director and CEO effective June 30, 2006 following four years and two months of service at Massport. Under his leadership, Massport became a leader in transportation security and reorganized its business model to reflect a corporate approach based on thirteen business lines in three operating departments, each with separate profit and loss reporting. Following Mr. Coy's announcement, the Massport Board immediately initiated a search to select his replacement. On August 2, the Board appointed Thomas J. Kinton, Jr. as permanent Executive Director and CEO and granted him a five-year employment contract. Mr. Kinton has dedicated his career to Massport, having worked his way up through the ranks of the Aviation Department where he has served as Director of Aviation since 1993 and has been nationally recognized for excellence in airport management. He has also been chosen twice to provide interim leadership for the Authority prior to this permanent appointment.

Authority's Activity Highlights

Aviation Activity. Since the late fall of 2003, Logan Airport has seen steady improvement in passenger activity. Aviation passenger traffic at Logan Airport increased 2.2% during fiscal year 2006 to 27.4 million passengers. During fiscal year 2005 passenger traffic at Logan grew to 26.9 million passengers (including general aviation) 9.4% over fiscal year 2004 levels. In contrast, aircraft operations (take-offs and landings) decreased by 2.6% in fiscal year 2006 from fiscal year 2005. This contrasted with the 7.1% increase during fiscal year 2005 over fiscal year 2004. Landed weights for fiscal year 2006 were 20,376,000 thousand pounds, a 2.1% decrease from fiscal year 2005, while fiscal year 2005 landed weights of 20,822,000 thousand pounds had shown an increase of 4.8% from fiscal year 2004. These statistics demonstrate that the airlines are accommodating the growth in passengers with fewer flights. During fiscal year 2006, Logan introduced a direct billing system for landing fees based on radar recordings of the tail numbers of each plane landing at Logan. This replaced the previous system, in place at most airports, of landing fee collections based upon self-reported payments from the air carriers.

The Authority also expanded the pay on foot program, Exit Express, to the Central Garage at the start of fiscal year 2006. This program sped customers' departure from the garage and reduced the amount of cash handled by the cashiers. By the end of fiscal year 2006, the overall utilization rate for Exit Express reached 77%, a marked increase over the 63% rate utilization seen at the start of fiscal year 2006.

Maritime Activity. Activity and results at the Port of Boston also reflected continued growth. In fiscal year 2006, container volume reached 111,020 containers, a 7.1 % increase over fiscal year 2005 volume, which was in turn a 10.7% increase over fiscal year 2004. This growth was primarily a result of new Far-East service provided by CKYH partners (COSCO, K-Line, Yang Ming and Hanjin). In fiscal year 2006, the Black Falcon Cruise Terminal handled 246,365 passengers on 100 ship calls. The total number of cruise passengers increased in fiscal year 2006 by 27.7% compared to fiscal year 2005, while fiscal year 2005 was 4.0% less than fiscal year 2004. Automobiles processed at the Port in fiscal year 2006 increased by 4.8% from fiscal year 2005, while fiscal year 2005 was 12.6% less than fiscal year 2004. In fiscal year 2006, bulk tonnage increased to 202,681 tons or 6.9% greater than the fiscal year 2005 figure, which in turn was 31.3% greater than fiscal year 2004.

Bridge Activity. During fiscal year 2006, Tobin Bridge vehicle traffic grew to 10,041,640 vehicles, a 3.3% increase over fiscal year 2005. For fiscal year 2005, total vehicle traffic was 9,723,213, a decrease of 11.5% from fiscal year 2004. The drop in fiscal year 2005 traffic was an anticipated result of a toll rate increase in April 2004. The Bridge carries an average of 27,500 in-bound (revenue-paying) and 43,500 out-bound (non-revenue) vehicles per day. Since the Bridge deployed electronic toll collection devices ("ETC") in November of 1999, ETC usage has steadily improved to 48% of overall usage and 59% during the rush hour period (6:00am to 9:30am).

Security Initiatives. The Authority has always had a strong security program, and since September 11, 2001, it has undertaken numerous new security initiatives including the terminal modifications required to house the Transportation Security Administration's 100% baggage screening system. During fiscal year 2006 construction continued on a new access control system at Logan and on various boundary security measures. In fiscal year 2005, Air Safety Week's Airport Security Report awarded Logan Airport its "Exceptional Performance in Airport Security Award".

On July 1st, 2004, the standards for maritime security increased dramatically. The Authority's new formal Maritime Security Plans for each of its maritime facilities were completed and submitted to the United States Coast Guard. As of June 30, 2006, the Authority has completed over $1.5 million dollars worth of capital improvements at its port facilities to improve all aspects of perimeter security, access control, emergency power and lighting, and vehicle penetration protection. A formal audit in 2005 by the Coast Guard found the Authority's maritime operations to be in full compliance with all aspects of the new security standards.

The Authority continues to place the highest priority on protecting the traveling public and ensuring that its facilities – Logan Airport, Hanscom Field, the Port and the Tobin Bridge – are safe and secure.

Condition of the Air Carriers

Growth in Low Fare Carriers. Throughout fiscal year 2006, Logan Airport's six low cost carriers - AirTran, America West, ATA, Independence Air (which liquidated during the fiscal year), JetBlue, and Song – grew to handle 23.0% of Logan Airport's passengers, compared with 20.6% in fiscal year 2005 and 15.4% in fiscal year 2004. This group of carriers increased the number of passengers they carried at Logan Airport by 14.1% compared with their performance in fiscal year 2005, while Logan passenger traffic as a whole grew by 2.2%. During fiscal year 2006 JetBlue was Logan Airport's fourth largest carrier in terms of passenger share and AirTran was sixth. Logan Airport's low cost carriers provide low fare options mirroring the diversity of all air carriers that has long characterized the Airport's air service market.

Airline Bankruptcies. The economic stress facing the airline industry has been exacerbated by high fuel prices. The financial stress on the legacy air carriers, all of which operate at Logan Airport, continues

with two major airlines, Delta Airlines ("Delta") and Northwest Airlines ("Northwest") filing for bankruptcy protection on September 14, 2005. Throughout fiscal year 2006, Delta and Northwest made post-petition terminal rental and landing fee payments. As of September 30, 2006, these two major airlines are continuing to operate at Logan Airport under bankruptcy protection. During fiscal year 2006, US Airways and United Air Lines ("United") emerged from bankruptcy protection. US Airways filed a Plan of Reorganization (the "Plan") with the bankruptcy court which was approved and made effective on September 27, 2005. The Plan is based on a merger with America West Airlines and, as part of the Plan, US Airways and its affiliates has assumed all Authority leases and executory contracts. United filed a reorganization plan with the bankruptcy court which was approved and made effective on February 1, 2006 under which United assumed all Authority leases and executory contracts. Delta, and Northwest, together, accounted for 19.8% of the passengers at Logan Airport in fiscal year 2006 (Delta 15.0%, and Northwest 4.8%). In order to minimize any potential losses, the Authority actively monitors past due balances due to bankruptcy proceedings, aggressively pursues overdue amounts and bankruptcy claims, and includes an allowance for uncollectible debts in its landing fee rates.

Logan Airport Enplanements and Operations Activity for FY 2006, 2005 & 2004

	2006	2005	2004
Enplanements			
Domestic	11,590,220	11,251,713	10,195,648
International	2,071,481	2,129,374	2,040,079
General Aviation	58,315	60,687	43,234
Total Enplanements	13,720,016	13,441,774	12,278,961
Aircraft Operations (take-offs and landings)	402,551	413,337	386,021
Landed Weights (1,000 pounds)	20,376,000	20,822,000	19,864,000

Financial Highlights

The financial results for fiscal year 2006 showed steady improvement over the prior year. Operating income of $43.8 million was $3.9 million or 9.7% greater than the operating income of fiscal year 2005 and $10.1 million or 30.1% greater than that of fiscal year 2004. As of June 30, 2006, the Authority had net assets of $1,391.5 million, an increase of $74.6 million or 5.7% over fiscal year 2005 and of $149.6 million or 12.0% over fiscal year 2004. These results are attributed to a variety of factors, primarily the return of passengers to near pre-9/11 levels. The Authority carefully managed the revenues and costs within its control with an emphasis on increasing and diversifying non-airline revenues. The expense controls introduced in the financial recovery plan for fiscal year 2002 and the focus on reducing administrative expenses were continued through fiscal year 2006, during which the Authority successfully implemented an additional program of expense reductions to offset the rising cost of energy and the increased cost of State Police services resulting from a new union contract.

Summaries of revenues and expenses, calculated according to Generally Accepted Accounting Principles ("GAAP"), for fiscal year 2006 as compared to fiscal year 2005, and fiscal year 2005 as compared to fiscal year 2004, are set forth below. Operating grant revenues were $3.5 million during fiscal year 2006, $5.5 million during fiscal year 2005 and $4.9 million during fiscal year 2004. These payments primarily represented a reimbursement for a portion of the incremental operating costs associated with enhanced security services.

The fiscal year 2006 operating revenues for the Authority were $497.6 million, an increase of $37.1 million when compared to fiscal year 2005 and $82.7 million when compared to fiscal year 2004. This result is largely attributable to increases in terminal rentals, utility charges, Maritime container fees, and investment income. The data presented herein include comparative information for fiscal years 2005 and 2004.

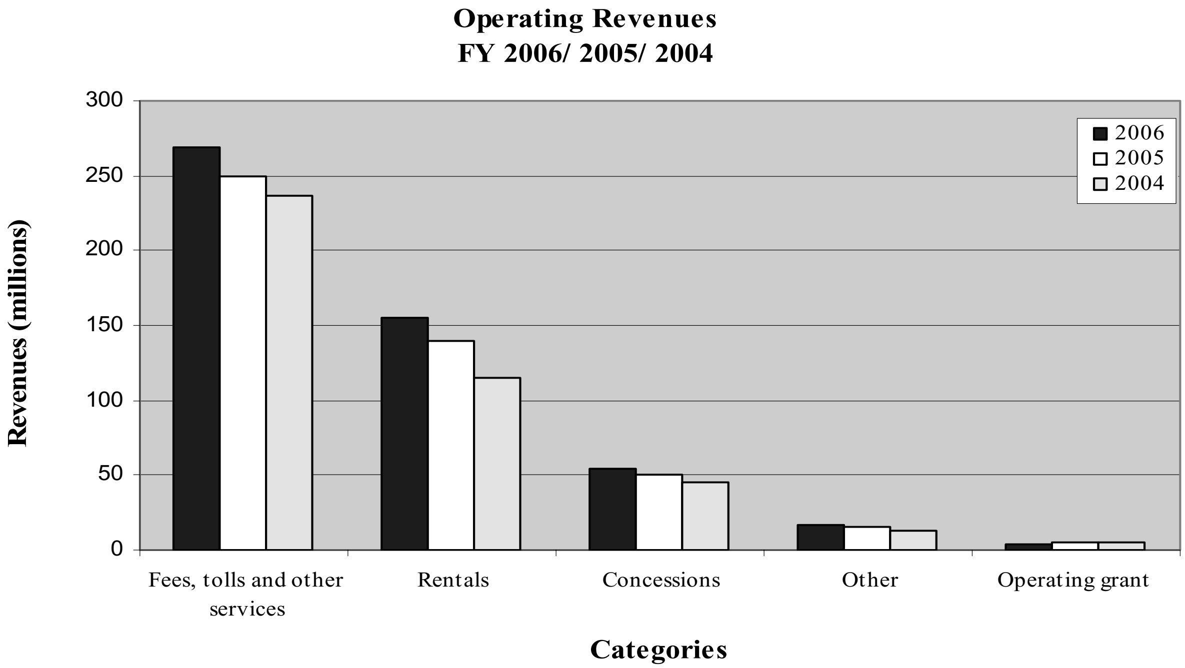
Operating Revenues (in millions)	**2006**	**2005**	**Increase (Decrease) from 2005**	**Percent of Increase (Decrease) from 2005**
Operating				
Fees, tolls and other services	$ 268.7	$ 249.3	$ 19.4	8%
Rentals	155.0	139.7	15.3	11%
Concessions	53.7	49.9	3.8	8%
Other	16.8	16.1	0.7	4%
Operating grant	3.5	5.5	(2.0)	-36%
Total	$ 497.6	$ 460.6	$ 37.0	8%

Column totals might not add due to rounding.

Operating Revenues (in millions)	**2005**	**2004**	**Increase (Decrease) from 2004**	**Percent of Increase (Decrease) from 2004**
Operating				
Fees, tolls and other services	$ 249.3	$ 236.3	$ 13.0	6%
Rentals	139.7	115.2	24.5	21%
Concessions	49.9	45.1	4.8	11%
Other	16.1	13.5	2.6	19%
Operating grant	5.5	4.9	0.6	12%
Total	$ 460.6	$ 415.0	$ 45.6	11%

Column totals might not add due to rounding.

The following is a graphic illustration of operating revenues calculated in accordance with GAAP by source for the years ended June 30, 2006, 2005 and 2004:



The fiscal year 2006 operating expenses for the Authority were $453.8 million, an increase of $33.2 million over fiscal year 2005 and $72.5 million over fiscal year 2004. Expense growth during this period was driven by increased depreciation resulting from placing several new major capital projects in service over the fiscal year; the operation and maintenance of these new facilities; new PILOT agreements, a new union contract for the State Police, and rising energy costs. During fiscal year 2006, the Authority's 10-year, fixed-rate contract for electricity expired. The Authority rebid its electricity purchases and entered into a five year variable-rate contract, under which the price of electricity for a significant portion of the Authority's purchases may be fixed for certain periods at the Authority's option. The Authority's staff used this discretion to reduce the Authority's electricity cost during fiscal year 2006 below the expectations discussed with the Board in October 2005 when the contract was approved.

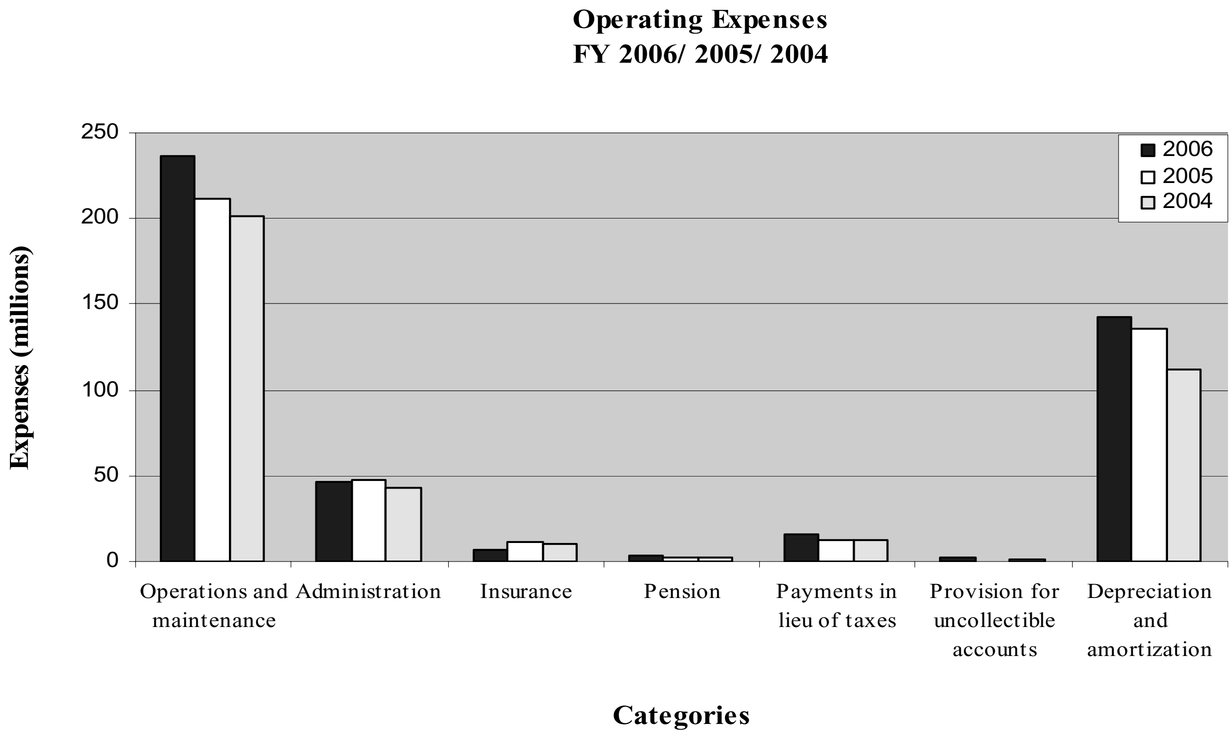
Operating Expenses (in millions)	**2006**	**2005**	**Increase (Decrease) from 2005**	**Percent of Increase (Decrease) from 2005**
Operating				
Operations and maintenance	$ 236.4	$ 211.9	$ 24.5	12%
Administration	46.7	47.0	(0.3)	-1%
Insurance	6.6	11.2	(4.6)	-41%
Pension	3.7	2.1	1.6	76%
Payments in lieu of taxes	15.8	12.0	3.8	32%
Provision for uncollectible accounts	2.6	0.3	2.3	767%
Depreciation and amortization	142.1	136.0	6.1	4%
Total	$ 453.8	$ 420.6	$ 33.2	8%

Column totals might not add due to rounding.

Operating Expenses (in millions)	**2005**	**2004**	**Increase (Decrease) from 2004**	**Percent of Increase (Decrease) from 2004**
Operations and maintenance	$ 211.9	$ 201.4	$ 10.5	5%
Administration	47.0	43.1	3.9	9%
Insurance	11.2	10.2	1.0	10%
Pension	2.1	1.8	0.3	17%
Payments in lieu of taxes	12.0	12.4	(0.4)	(3%)
Provision for uncollectible accounts	0.3	0.6	(0.3)	(50%)
Depreciation and amortization	136.0	111.7	24.3	22%
Total	$ 420.6	$ 381.3	$ 39.4	10%

Column totals might not add due to rounding.

The following is a graphic illustration of the total operating expenses calculated in accordance with GAAP by type for the years ended June 30, 2006, 2005 and 2004:



Changes in Net Assets

The change in net assets is an indicator of whether the overall financial condition of the Authority has improved or declined during the year. The changes in net assets for the years ended June 30, 2006, 2005 and 2004 were increases of $74.6 million, $75.0 million and $108.1 million, respectively. Operating income for fiscal year 2006 of $43.8 million was $3.9 million or 9.7% greater than fiscal year 2005 and $10.1 million or 30.1% greater than fiscal year 2004. Non-operating revenues include PFCs and investment income. PFC revenues in fiscal year 2006 of $48.3 million were 36.8% greater than PFC revenues of $35.3 million in fiscal year 2005 and 47.1% greater than PFC revenues of $32.8 million in fiscal year 2004 largely due to the change of the collection rate from $3.00 to $4.50 per eligible passenger, effective October 1, 2005. Investment income increased to $20.6 million in fiscal year 2006 from $13.5 million in fiscal year 2005 and from $10.2 million in fiscal year 2004. Factors in the increase were: rising interest rates, the increase in the size of the portfolio that resulted from the issuance of the 2005 bonds and the rise in PFC collections; and the implementation of a new banking structure which increased the yield on working capital. Non-operating revenues also include receipts of various settlement claims in fiscal year 2006 of $0.4 million and in fiscal year 2005 of $3.4 million. Non-operating expenses of $75.3 million increased by $10.4 million over fiscal year 2005 and increased by $15.4 million over fiscal year 2004, primarily due to an increase in interest expense associated with an end to the capitalized interest on certain projects and a decrease in the fair market value of investments. The net non-operating revenues and expenses were a net expense of $5.4 million in fiscal year 2006, in contrast to a net expense of $12.7 million in fiscal year 2005 and a net expense of $15.7 million in fiscal year 2004. Capital grant revenue for fiscal year 2006 was $36.2 million, and includes $22.1 million in FAA grants for airfield improvements and $8.9 million in FAA grants for residential soundproofing. Fiscal year 2006 capital grant revenue is 24.1% less than fiscal year 2005 with capital grant revenue of

$47.7 million and 59.8% less than fiscal year 2004 with capital grant revenue of $90.1 million. The change reflects the atypically large grant receipts realized in fiscal year 2005 and particularly in fiscal year 2004 from the TSA and the FAA in support of the Authority's $146 million construction program to house the TSA's hold baggage screening system.

The following is the Statement of Revenues, Expenses and Changes in Net Assets:

	(in millions)		
	2006	**2005**	**2004**
Operating Revenues:			
Fees, tolls and other services	$ 268.7	$ 249.3	$ 236.3
Rentals	155.0	139.7	115.2
Concessions	53.7	49.9	45.1
Other	16.8	16.1	13.5
Operating grants	3.5	5.5	4.9
Total Operating Revenues	497.6	460.6	415.0
Operating Expenses:			
Operations and maintenance	(236.4)	(211.9)	(201.4)
Administration	(46.7)	(47.0)	(43.1)
Insurance	(6.6)	(11.2)	(10.2)
Pension	(3.7)	(2.1)	(1.8)
Payments in lieu of taxes	(15.8)	(12.0)	(12.4)
Provision for uncollectible accounts	(2.6)	(0.3)	(0.6)
Depreciation and amortization	(142.1)	(136.0)	(111.7)
Total Operating Expenses	(453.8)	(420.6)	(381.3)
Operating Income	43.8	39.9	33.7
Non-Operating Revenues (Expenses):			
Passenger facility charges	48.3	35.3	32.8
Investment income	20.6	13.5	10.2
Net change in the fair value of investments	(2.9)	-	-
Other revenues	0.4	-	-
Settlement of claims	0.4	3.4	1.0
Other expense	(2.8)	(0.2)	(0.2)
Gain on sale of equipment	0.1	0.1	-
Interest expense	(69.6)	(64.6)	(59.7)
Total Non-Operating Revenues (Expenses)	(5.4)	(12.7)	(15.7)
Capital Grant Revenue	36.2	47.7 *	90.1 **
Increase in Net Assets	$ 74.6	$ 75.0	$ 108.1

* Includes $20 million invoice to TSA.
** Includes $58 million received from TSA.

Column totals might not add due to rounding.

Balance Sheets

The balance sheets present the financial position of the Authority at the end of the fiscal year. The statement includes all assets and liabilities of the Authority. Net assets are the difference between total assets and total liabilities and are an indicator of the current fiscal health of the Authority. A summarized comparison of the Authority's assets, liabilities and net assets at June 30, 2006, 2005 and 2004 is as follows:

	(in millions)		
	2006	**2005**	**2004**
Assets			
Current assets	$ 527.6	$ 586.0	$ 448.7
Non-current assets			
Capital assets, net	2,464.1	2,341.3	2,194.2
Other non-current assets	231.6	303.4	260.8
Total Assets	$ 3,223.3	$ 3,230.6	$ 2,903.7
Liabilities			
Current liabilities	$ 268.8	$ 294.7	$ 218.1
Non-current liabilities			
Long term debt outstanding	1,518.4	1,572.5	1,385.4
Other non-current liabilities	44.6	46.5	58.4
Total Liabilities	1,831.8	1,913.7	1,661.8
Net Assets			
Invested in capital assets, net of debt	814.2	772.9	772.5
Restricted:			
Bond funds	163.2	161.1	134.2
Project funds	183.7	148.7	127.8
Passenger facility charges	48.3	50.5	44.5
Other purposes	100.7	106.7	96.1
Total restricted	495.9	467.0	402.6
Unrestricted	81.4	76.9	66.8
Total net assets	1,391.5	1,316.8	1,241.9
Total Liabilities and Net Assets	$ 3,223.3	$ 3,230.6	$ 2,903.7

Column totals might not add due to rounding.

The Authority ended fiscal year 2006 with assets of $3.2 billion, and with liabilities of $1.8 billion and net assets of $1.4 billion.

As of June 30, 2006 the Authority has investments in facilities of $2,464.1 million, including both fully completed facilities and construction-in-progress, an increase of $122.8 million from 2005 and $269.8 million from 2004. The Authority's capital assets are principally funded by the proceeds of revenue bonds, Authority revenues, PFCs and capital contributions from federal grants. Assets, other than capital assets which are stated at historical cost less an allowance for depreciation, and liabilities are recorded at cost.

Long-term debt outstanding decreased by $54.1 million as no new debt was issued in fiscal year 2006 and principal payments were made on the existing long term debt. Current liabilities decreased by $25.9

million, with a sizeable decrease in accounts payable partially offset by the increase in commercial paper, current maturities of funded debt and other items.

Net assets, which represent the residual interest in the Authority's assets after liabilities are deducted, were $1,391.5 million at June 30, 2006, an increase of $74.6 million from fiscal year 2005 and $149.6 million from fiscal year 2004. Those net assets invested in capital assets, net of related debt was $814.2 million, an increase of $41.2 million and $41.7 million over fiscal year 2005 and 2004, respectively. The Authority's restricted assets of $496.0 million as of June 30, 2006, are subject to the pledge of the 1978 Trust Agreement or the PFC Trust Agreement. The remaining unrestricted assets of $81.4 million are deposited in the Improvement and Extension Fund and may be used for any lawful purpose of the Authority, and have been fully committed to support the Authority's capital program.

Cash and Investment Management

The Authority's cash and cash equivalents totaled $111.2 million on June 30, 2006, a decrease of $70.7 million from the $181.9 million on June 30, 2005 and a decrease of $6.6 million from the $117.8 million on June 30, 2004. The fiscal year 2005 figure was $64.2 million greater than the $117.8 million cash position on June 30, 2004. Cash and cash equivalents are considered highly liquid investments with an original maturity of thirty (30) days or less. The Authority's cash and cash equivalents decreased during fiscal year 2006 as the proceeds of the 2005 Bonds and funds from other sources were applied to the acquisition and construction of capital assets. In fiscal year 2005, the Authority issued its 2005 Bonds pursuant to the 1978 Trust Agreement, and applied a portion of the proceeds of the 2005 Bonds to fund acquisition and construction of certain capital assets and to advance refund certain previously issued bonds. As of June 30, 2005, the majority of the proceeds of the 2005 Bonds were invested, pending application of such proceeds to payment of construction costs of certain capital assets. Fiscal year 2006 saw significant decreases in the purchases of investments and in the proceeds from sales and maturities of investments, as cash was applied to the acquisition and construction of capital assets, which drew down balances available for investment.

The following summary shows the major sources and uses of cash:

	(in millions)		
	2006	**2005**	**2004**
Net cash provided by operating activities	$ 181.1	$ 175.9	$ 152.6
Net cash used for capital and related financing activities	(310.8)	(46.6)	(140.9)
Net cash provided by (used for) investing activities	58.9	(65.1)	(103.4)
Net (decrease)/increase in cash and cash equivalents	(70.8)	64.2	(91.7)
Cash and cash equivalents, beginning of year	181.9	117.8	209.5
Cash and cash equivalents, end of year	$ 111.2	$ 181.9	$ 117.8

Column totals might not add due to rounding.

Cash received during the year or required for the needs of the Authority was invested in demand deposits, the Massachusetts Municipal Depository Trust ("MMDT"), U.S. Government and agency obligations, repurchase agreements collateralized by U.S. Government or agency obligations, certificates of deposit, and other permitted investments under the 1978 Trust Agreement or the PFC Trust Agreement. During fiscal year 2006, the Authority's daily average portfolio balance of funds held under the 1978 Trust Agreement was $553.7 million and the average yield on investments was 3.86%. During fiscal year 2006, the Authority's average portfolio balance of funds held under the PFC Trust Agreement was $53.0

million and the average yield on investments was 4.79%. Certain funds held under the PFC Trust Agreement are invested in forward delivery agreements. The PFC debt service account for the 1999 Series A Bonds is invested until July 1, 2017, the PFC debt service account for the 1999 Series B Bonds is invested until July 1, 2015 and the PFC debt service reserve funds are invested until June 28, 2017. An annual cash flow projection for capital projects is developed for all bond proceeds as well as for the Maintenance Reserve and Improvement and Extension Funds and the PFC Capital Fund, and investments are matched to optimize investment income after ensuring cash is available for capital project expenses and maintaining the principal value of each fund.

All investments must be made pursuant to the Investment Policy adopted in 2000 by the Members of the Authority. The majority of the Authority's funds, including investments, are held by the Trustees under the 1978 Trust Agreement or the PFC Trust Agreement, respectively, or custodians for such Trustees, and are invested at the direction of the Authority. An investment committee meets monthly to review projected cash flow needs and investments, and an investment oversight committee meets quarterly to review the Authority's existing portfolios for compliance with the Investment Policy and comparability with external benchmarks, and to revise the existing investment strategies for the Authority's various funds, if necessary.

The Authority's Capital Program

Fiscal Year 2006-Fiscal Year 2010 Capital Program. On February 15, 2006, the Members of the Authority approved its capital program for fiscal years 2006 through 2010 (the "FY06-FY10 Capital Program"). The FY06-FY10 Capital Program includes total expenditures of $1.74 billion for ongoing projects and projects to be commenced during the five-year program period, including $683 million in projects that will only be executed if they are funded through third-party or non-recourse funding sources. This program includes funding for a number of security initiatives, including improvements to perimeter security at Logan Airport.

The FY06-FY10 Capital Program represents a comprehensive and coordinated capital improvement and financial master plan for all Authority facilities. The program was developed to be consistent with the Authority's goals of funding security initiatives and airfield operation enhancements, maximizing FAA and TSA grant receipts, securing and utilizing a $4.50 PFC, and avoiding increasing Airport rates and charges to levels that could lead to significant service reductions. In 1995, the Authority embarked on a major capital program to repair, modernize and revitalize the physical plant at Logan Airport and to improve the infrastructure at each of the Authority's facilities. Continuing the efforts to renew Logan Airport and the Authority's other facilities, the FY06-FY10 Capital Program allocates $1.053 billion of Authority funding to important initiatives to address the current security challenges facing the aviation industry, to maintain and enhance the public airfield, to add significant improvements to the public parking facilities at the Airport, and to upgrade each of the Authority's facilities generally. At the same time, the Authority continues to strive to avoid or minimize adverse local and regional impacts associated with operations at the Airport and the Authority's other facilities.

During fiscal year 2006, the Authority disbursed $311.9 million on its on-going capital program. Major projects substantially completed in fiscal year 2006 include the new Logan airfield lighting vault, upgrade of the fire alarm system at Logan, the South Boston waterfront park and roads and the overlay of the upper level deck of the Tobin Bridge. In fiscal year 2006 work commenced on the Logan Wayfinding System, the new facilities maintenance building at Logan, the soundproofing for the homes under the flight path of runway 14/32, the Terminal B public space expansion including the replacement of the exterior sliding doors, a new sand storage building at Hanscom, new concrete runways for the container handling cranes at Conley Terminal and the overlay of the lower deck at the Tobin Bridge. Major on-going projects that are scheduled for completion in fiscal year 2007 or beyond at the Airport include

Runway 14/32,and the Centerfield Taxiway project; the renovation of the Central Garage at the Airport, which includes completely rebuilding the three lower floors of that garage, renovating the next two floors, and adding three new levels to that structure; the International Gateway; the enhanced security program; residential soundproofing in nearby communities; and certain Terminal Area Roadway improvements.

Capital Financing and Debt Management

As of June 30, 2006, prior to the principal payments made on July 1, 2006, outstanding obligations of the Authority issued pursuant to the 1978 Trust Agreement and the PFC Trust Agreement totaled approximately $1.6 billion including the Subordinated Revenue Bonds but excluding commercial paper. (Special facilities revenue bonds issued on behalf of and payable by certain borrowers are excluded because they are not general obligations of the Authority.) In fiscal year 2006, the total amount deposited to pay debt service on obligations issued pursuant to the 1978 Trust Agreement (not including subordinate obligations) was an aggregate of principal and interest of $106.8 million, while the total amount deposited to pay debt service on bonds issued pursuant to the PFC Trust Agreement was an aggregate of principal and interest of $21.5 million.

In fiscal year 2006, the Authority secured a $13.6 million FAA grant that was the second grant received under a Letter of Intent in the amount of $90.8 million awarded in fiscal year 2004 by the FAA to provide grants in aid of the Authority's airside improvement program spread over an eight-year period. In fiscal year 2005, the Authority secured a $15 million FAA grant received under the Letter of Intent. Other key financial accomplishments in fiscal year 2006 include an increase in the outstanding principal of commercial paper to $89 million; and the termination of Massport's existing interest rate swap for a payment of $815,000 that included $98,021 of accrued interest and $716,979 of termination value.

Key financial accomplishments in fiscal year 2005 included the issuance of the 2005 Bonds; an amendment of the commercial paper program, and an increase in the outstanding principal amount of commercial paper notes to $70 million; and the bidding and completion of a seven-year Forward Delivery Agreement for the Debt Service Reserve Funds for the Series 1998-A, 1998-B, 2003-A, 2003-B and 2003-C Bonds that will yield 4.202% per year.

Credit Ratings:
The Authority's revenue bonds are rated AA- by Fitch, Aa3 by Moody's and AA- by S&P. When the Authority issued the 2005 Bonds in May 2005, the Fitch and Moody's ratings were confirmed and the S&P rating was upgraded from A+ to AA-. Fitch upgraded the Authority's outlook from stable to positive. In August 2004, Moody's raised the outlook on the Authority's bonds to stable. The Authority's PFC Revenue Bonds are insured by Financial Security Assurance Inc. and are rated AAA, Aaa and AAA, as insured, by each of Fitch, Moody's, and S&P, respectively. The Authority's Commercial Paper Notes are rated A-1+ and P-1 by S&P and Moody's, respectively, based on credit enhancement provided by WestLB AG.

Authority Obligations:
The following is a summary of outstanding obligations issued by the Authority as of June 30, 2006:

Commercial Paper Program
In fiscal year 2006, the Authority issued $19 million of commercial paper resulting in a total amount outstanding of $89 million. On March 10, 2005, the Authority renewed its commercial paper program in an aggregate principal amount not to exceed $139 million and entered into an amendment to the Letter of Credit and Reimbursement Agreement with WestLB AG, New York Branch, that provides security for the commercial paper program, extending the term to December 15, 2015.

On May 5, 2005, the Authority issued the 2005 Bonds in a principal amount of $453,750,000. The 2005-A Bonds and the 2005-B Bonds were issued to finance a portion of the Authority's capital program. The 2005-C Bonds were issued to advance refund a portion of the Authority's Revenue Bonds, Series 1997-A, 1998-D and 1999-C Bonds. This advance refunding achieved a net present value savings of $9.77 million or 4.2%. While debt service for fiscal year 2006 increased by $406,000, the annual savings for fiscal years 2007-2029 will be approximately $575,000. The Official Statement relating to the Authority's 2005 Bonds is available from the Authority or by accessing the Authority's website.

Revenue Bonds

- The Authority had 16 series of Revenue Bonds (including Revenue Refunding Bonds but excluding subordinated Revenue Bonds) outstanding pursuant to the 1978 Trust Agreement in a total principal amount of $1.27 billion as of June 30, 2006.
- While 14 of these series are fixed rate debt, the 2003-B and the 2005-B Bonds are auction rate securities. The 2003-B Bonds are subject to the Alternative Minimum Tax, are insured by MBIA, and Citigroup and Lehman Brothers serve as Broker Dealers for the auctions that are held every 35 days. (MBIA also insures the fixed rate 2003-A and 2003-C Bonds.) The 2005-B Bonds are subject to the Alternative Minimum Tax, are insured by Ambac, and Goldman Sachs serves as Broker Dealer for the auctions that are held every 7 days. (Ambac also insures the fixed rate 2005-A and 2005-C Bonds.)
- The Authority had six series of Subordinated Revenue Bonds, in the aggregate principal amount of $74 million, outstanding pursuant to the 1978 Trust Agreement.

PFC Revenue Bonds

- The Authority has issued two series of PFC Revenue Bonds pursuant to the PFC Trust Agreement, with $201.3 million outstanding as of June 30, 2006. The PFC Revenue Bonds are insured by Financial Security Assurance, Inc.

Special Facilities Revenue Bonds

- As of June 30, 2006, the Authority had approximately $715.5 million of special facilities revenue bonds outstanding, in nine separate series of bonds.
- As a result of the bankruptcy of United Air Lines, Inc., the trustee for the Authority's Special Facilities Revenue Bonds (United Air Lines, Inc., Project), Series 1999-A declared an event of default with respect to such bonds. Once the United Plan of Reorganization was approved by the bankruptcy court on February 1, 2006, this debt was discharged, along with other unsecured debt, and the bond holders are entitled to distribution along with other unsecured creditors.
- The principal of and interest on each series of the special facilities revenue bonds issued by the Authority are special obligations of the Authority, payable solely from the sources of payment and to the extent provided in the resolutions establishing and authorizing the issuance of such bonds. The special facilities revenue bonds are not and shall never be general obligations of the Authority or of the Commonwealth or of any political subdivision thereof.

Other Obligations

- From time to time the Authority has guaranteed or provided other credit support for debt obligations issued by or on behalf of its tenants.
- On June 5, 2006 the Authority terminated the swap for a payment from Citigroup of $815,000 that included $98,021 of accrued interest and $716,979 of termination value. Over the life of the swap Massport received $9,025,652. In fiscal year 2006 the Authority received $1,305,402 of which $731,025 was applied to the debt service for the 1999-D Bonds, and $574,377 was applied to the debt service for the 1998-E Bonds. In fiscal year 2005 Massport received four quarterly net payments from the swap counterparty totaling $2,606,512. $1,459,647 was applied to the debt

service for the 1999-D Bonds and $1,146,865 was applied to the debt service for the 1998-E Bonds. Effective July 1, 2002, the Authority had entered into an interest rate swap agreement with Citigroup Financial Products ("Citigroup"), which is guaranteed by Citigroup Global Market Holding, Inc., in the notional amount of $100 million pursuant to which the Authority received 4.05% and paid Citigroup the Bond Market Association index on the notional amount for the period from July 1, 2002 through June 30, 2012. The Authority treated this transaction as a synthetic variable rate refunding of $56 million of its Revenue Bonds, Series 1999-D and $44 million of its Revenue Bonds, Series 1998-E.

The Authority, through the 1978 Trust Agreement, has covenanted to maintain a debt service coverage ratio of not less than 1.25. Debt service coverage is calculated based on a formula set forth in the 1978 Trust Agreement. Historically, the Authority has maintained a coverage ratio significantly higher than its requirement. As of June 30, 2006, 2005 and 2004, respectively, the Authority's debt service coverage under the 1978 Trust Agreement was 2.33, 2.60 and 2.20. As of June 30, 2006, 2005 and 2004, the Authority's PFC debt service coverage under the PFC Trust Agreement was 2.45, 1.78 and 1.62, respectively.

Contacting the Authority's Financial Management

For additional information concerning the Authority, please see the Authority's website, www.massport.com. Financial information can be found in the Investor Relations section of the website by clicking on "About Massport", and then clicking on "Who We Are". The Authority's executive offices are located at One Harborside Drive, Suite 200S, East Boston, Massachusetts 02128, and the main telephone number is (617) 426-2800. Questions may be directed to Leslie A. Kirwan, the Authority's Director of Administration and Finance and Secretary-Treasurer.

Massachusetts Port Authority
Balance Sheets
June 30, 2006 and 2005
(In Thousands)

ASSETS	2006	2005
CURRENT ASSETS		
Assets whose use is unlimited:		
Cash and cash equivalents	$ 40,642	$ 42,715
Investments	68,535	46,535
Assets whose use is limited:		
Cash and cash equivalents	70,565	139,231
Investments	286,886	277,892
Accounts receivable – net of allowance for doubtful accounts of $13,754 and $11,470 as of June 30, 2006 and 2005, respectively	32,841	29,328
Accounts receivable-grants	23,477	43,705
Prepaid expenses and other assets	4,690	6,547
Total current assets	527,636	585,953
NONCURRENT ASSETS		
Assets whose use is unlimited:		
Investments	11,707	27,440
Assets whose use is limited:		
Investments	152,569	205,439
Prepaid expenses and other assets	25,756	26,741
Investment in joint venture	3,061	3,637
Intangible assets, net	38,551	40,093
Capital Assets		
Completed facilities	3,449,461	3,505,003
Less accumulated depreciation	(1,171,292)	(1,298,797)
	2,278,169	2,206,206
Construction in progress	185,885	135,052
Capital assets, net	2,464,054	2,341,258
Total noncurrent assets	2,695,698	2,644,608
TOTAL ASSETS	$ 3,223,334	$ 3,230,561

(Continued on next page)

The accompanying notes are an integral part of these financial statements.

Massachusetts Port Authority
Balance Sheets, Continued
June 30, 2006 and 2005
(In Thousands)

LIABILITIES AND NET ASSETS	2006	2005
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 73,267	$ 136,751
Compensated absences	1,144	1,061
Retainage	10,362	3,488
Current maturities of funded debt	53,206	47,017
Commercial paper notes	89,000	70,000
Accrued interest payable	37,122	30,746
Deferred income	4,680	5,635
Total current liabilities	268,781	294,698
NON-CURRENT LIABILITIES		
Accrued expenses	5,450	4,022
Compensated absences	21,740	20,155
Retainage	4,707	8,756
Funded debt	1,518,413	1,572,473
Deferred income	12,723	13,582
Total noncurrent liabilities	1,563,033	1,618,988
Total liabilities	1,831,814	1,913,686
NET ASSETS		
Invested in capital assets, net of related debt	814,180	772,931
Restricted:		
Bond funds	163,210	161,112
Project funds	183,725	148,743
Passenger facility charges	48,303	50,481
Other purposes	100,736	106,678
Total restricted	495,974	467,014
Unrestricted	81,366	76,930
Total net assets	1,391,520	1,316,875
TOTAL LIABILITIES AND NET ASSETS	$ 3,223,334	$ 3,230,561

The accompanying notes are an integral part of these financial statements.

Massachusetts Port Authority
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2006 and 2005
(In Thousands)

	2006	2005
Operating revenues:		
Fees, tolls and other services	$ 268,723	$ 249,323
Rentals	154,991	139,731
Concessions	53,678	49,923
Other	16,752	16,147
Operating grants	3,490	5,454
Total operating revenues	497,634	460,578
Operating expenses:		
Operations and maintenance	236,359	211,905
Administration	46,653	47,023
Insurance	6,632	11,221
Pension	3,715	2,141
Payments in lieu of taxes	15,771	12,028
Provision for uncollectible accounts	2,609	320
Depreciation and amortization	142,071	136,007
Total operating expenses	453,810	420,645
Operating income	43,824	39,933
Nonoperating revenues (expenses):		
Passenger facility charges	48,324	35,316
Investment income	20,648	13,456
Net change in the fair value of investments	(2,870)	-
Other revenues	351	-
Settlement of claims	438	3,354
Other expenses	(2,780)	(230)
Gain on sale of equipment	102	60
Interest expense	(69,601)	(64,620)
Total nonoperating revenues (expenses)	(5,388)	(12,664)
Income before capital grant revenue	38,436	27,269
Capital grant revenue	36,209	47,709
Increase in net assets	74,645	74,978
Net assets, beginning of year	1,316,875	1,241,897
Net assets, end of year	$ 1,391,520	$ 1,316,875

The accompanying notes are an integral part of these financial statements.

Massachusetts Port Authority
Statements of Cash Flows
For the Years Ended June 30, 2006 and 2005
(In Thousands)

	2006	2005
Cash flows from operating activities:		
Cash received from customers and operating grants	$ 494,452	$ 459,795
Cash payments:		
To vendors for goods and services	(193,916)	(174,272)
To employees for services	(103,369)	(97,861)
Payments in lieu of taxes	(16,071)	(11,728)
Net cash provided by operating activities	181,096	175,934
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(311,917)	(236,831)
Proceeds from sale of bonds	-	478,203
Principal paid on refunded debt	-	(248,079)
Principal paid on funded debt	(47,285)	(43,080)
Interest paid on funded debt	(72,527)	(74,837)
Proceeds from commercial paper financing	19,000	20,000
Proceeds from passenger facility charges	46,899	35,687
Capital grants	54,467	18,897
Settlement of claims	438	3,354
Proceeds from sale of equipment	145	60
Net cash used for capital and related financing activities	(310,780)	(46,626)
Cash flows from investing activities:		
Purchases of investments	(504,728)	(1,729,917)
Proceeds from sales and maturities of investments	543,341	1,650,472
Interest earned on investments	20,332	14,323
Net cash provided by (used for) investing activities	58,945	(65,122)
Net (decrease)/increase in cash and cash equivalents	(70,739)	64,186
Cash and cash equivalents, beginning of year	181,946	117,760
Cash and cash equivalents, end of year	$ 111,207	$ 181,946

(Continued on next page)

The accompanying notes are an integral part of these financial statements.

Massachusetts Port Authority
Statements of Cash Flows, Continued
For the Years Ended June 30, 2006 and 2005
(In Thousands)

	2006	2005
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 43,824	$ 39,933
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	142,071	136,007
Provision for uncollectible accounts	2,609	320
Changes in assets and liabilities:		
Accounts receivable	(4,697)	88
Prepayments and other assets	5,919	(2,930)
Accounts payable and accrued expenses	(8,561)	(451)
Accrued compensated absences	1,668	2,260
Deferred income	(1,737)	707
Total adjustments	137,272	136,001
Net cash provided by operating activities	$ 181,096	$ 175,934

The accompanying notes are an integral part of these financial statements.

Massachusetts Port Authority
Notes to Financial Statements

The Massachusetts Port Authority (the "Authority") is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the "Commonwealth") created and existing pursuant to Chapter 465 of the Acts of 1956, as amended, (the "Enabling Act"). The Authority controls, operates and manages Boston-Logan International Airport ("Logan Airport"), Laurence G. Hanscom Field, Maurice J. Tobin Memorial Bridge ("Bridge"), the Port of Boston and other facilities in the Port of Boston. The Authority has no stockholders or equity holders and the Authority's financial statements are not a component of The Commonwealth's financial statements. The provisions of the Enabling Act and the Trust Agreement, dated as of August 1, 1978 as amended (the "1978 Trust Agreement"), between the Authority and U.S. Bank National Association (as successor to State Street Bank and Trust Company), as trustee (the "Trustee"), and the PFC Revenue Bond Trust Agreement dated May 6, 1999, as amended (the "PFC Trust Agreement"), between the Authority and The Bank of New York, as trustee (the "PFC Trustee"), govern all moneys received by the Authority pursuant to the Enabling Act.

A. Summary of Significant Accounting Policies

These financial statements have been prepared on the accrual basis of accounting and the economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America.

Commencing on July 1, 1995, the Authority elected to apply all GASB and Financial Accounting Standards Board ("FASB") pronouncements issued before November 30, 1989, under the provisions of GASB Statement No. 20. Accordingly, FASB Statements issued after FASB No. 104 are not incorporated in the Authority's financial statements.

During 2002, the Authority adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments* ("GASB 34") as amended. The Authority follows the "business type" activity requirements of GASB 34 which requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

  Nonexpendable – Net assets subject to externally imposed stipulations such that the Authority maintains them permanently. For the years ended June 30, 2006 and 2005, the Authority did not have nonexpendable net assets.

  Expendable – Net assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time. Such assets included the construction funds held pursuant to the 1978 Trust Agreement and the PFC Trust Agreement.

- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Members of the Authority or may otherwise be limited by contractual agreements with outside parties.

A. Summary of Significant Accounting Policies, continued

During fiscal year 2005, the Authority adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, effective for the Authority's fiscal year beginning July 1, 2004. Statement No. 40 establishes additional disclosure requirements addressing common risks of investments. (See Footnote C.)

New Accounting Pronouncements

In November 2003, the GASB issued Statement No. 42, *Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for the Authority's fiscal year beginning July 1, 2005. Statement No. 42 requires an evaluation of prominent events or changes in circumstances to determine whether an impairment loss should be recorded and that any insurance recoveries be netted with the impairment loss. The Authority adopted this statement for fiscal year 2006.

In May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistic Section,* effective for the Authority's fiscal year beginning July 1, 2005. This Statement amends the portions of National Council on Governmental Accounting ("NCGA") Statement 1, *Governmental Accounting and Financial Reporting Principles* that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to the financial statements, and required supplementary information to assess the economic condition of a government. The Authority adopted this statement for fiscal year 2006.

In December 2004, the GASB issued Statement No. 46 (amendment of GASB Statement No. 34), *Restricted by Enabling Legislation*, effective for the Authority's fiscal year beginning July 1, 2005. This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has cause for reconsideration. The Authority adopted this statement for fiscal year 2006.

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*, effective for the Authority's fiscal year beginning July 1, 2005. This statement requires the recognition of a liability and expense for *voluntary* termination benefits (for example, early-retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. The Authority adopted this statement for fiscal year 2006.

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the Authority's fiscal year beginning July 1, 2007. Statement No. 45 requires accrual-based measurement, recognition and disclosure of OPEB expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. For the Authority, this will result in increased expenses and a related liability which will likely be significant. The Authority is currently evaluating the effect that Statement No. 45 will have on its financial

A. Summary of Significant Accounting Policies, continued

statements. The Authority commissioned an actuarial valuation as of January 1, 2004 which estimated the liability to be in the range of $121.8 million to $423.7 million, and projected forward to January 1, 2005 in the range of $138 million to $463 million. The Authority is currently evaluating the effect that Statement No. 45 will have on its financial statements and awaiting the results of a new valuation as of January 1, 2006.

Assets Whose Use is Limited

The balance sheets caption, "Assets whose use is limited", represents restricted or trusteed assets under the 1978 Trust Agreement and the PFC Trust Agreement that are earmarked to fund certain activities of the Authority such as construction of new facilities, debt service and debt service reserves.

Cash and Cash Equivalents

The Authority considers all highly liquid investments (including "Assets whose use is limited") with an original maturity of 30 days or less when purchased to be cash equivalents.

Investments

Investments with an original maturity greater than one year are recorded at their fair value. Investments with an original maturity of less than one year are carried at amortized cost which approximates fair value. Investments consist of U.S. Government and agency obligations, repurchase agreements collateralized by U.S. Government or agency obligations, shares in the Massachusetts Municipal Depository Trust ("MMDT") and other investments permitted under the 1978 Trust Agreement or the PFC Trust Agreement. (See Note C.)

Self-Insurance

The Authority, as mandated by the 1978 Trust Agreement, maintains a self insurance account within the Operating Fund. The funds on deposit in the self insurance account are intended to pay claims that are below insurance policies' deductible limits, and to be available to fund certain claims that may not be insurable on reasonable terms, if any. Investments used to fund self-insurance claims are included within "Assets whose use is limited" in the accompanying balance sheets. (See Note N.)

Capital Assets

Facilities are carried at historical cost and include the expenditure of capital grants, the cost of significant renewals and betterments, capitalized interest and related legal costs. Capital grants received are recorded as capital grant revenue. Expenditures for repairs and operating maintenance are charged to expense as incurred. The capitalization threshold table is shown below:

Asset Category	Capitalization Threshold
Buildings & Bridge	$10,000
Machinery & Equipment	$5,000
Equipment Repair/Overhaul (Major)	$25,000
Runways, Runways & Other Paving	$50,000
Land	All land will be capitalized
Land Improvements	$50,000

A. Summary of Significant Accounting Policies, continued

Operating and Non-operating Revenues and Expenses

Operating revenue includes rentals, tolls, fees, concessions, and other charges derived in connection with the use of and privileges granted at the Authority's facilities, and amounts received from operating grants. All other revenues, which include interest income, Passenger Facility Charges ("PFCs"), non-operating grants, and gains resulting from the disposition of assets, if any, are reported as non-operating revenues. Operating expenses include those costs incurred for the operation and maintenance of the Authority's facilities, administrative expenses, insurance premiums, pension expenses, any payments made by the Authority in lieu of taxes, and depreciation. All other expenses, such as interest expense, net change in fair value of investments and losses resulting from the disposition of assets, are reported as non-operating expenses.

Depreciation

Depreciation is calculated on the straight-line method based on the estimated useful lives of the applicable assets beginning in the fiscal year of acquisition or completion of construction. Depreciation is computed on facilities, which are recorded in the accounts of the Authority, including those financed by grants. (See Note D.)

Interest Capitalization

The Authority capitalizes certain interest expense associated with the cost of tax-exempt borrowings, less any interest earned on temporary investment of the proceeds of those borrowings during the period of construction. Interest expense of $9.1 million and $7.5 million, reduced by interest income of $3.6 million and $1.3 million, resulted in interest of $5.6 million and $6.3 million for the years ended June 30, 2006 and 2005, respectively, being capitalized as a part of the cost of capital assets.

Accounting for Compensated Absences

The Authority accrues for vacation and sick pay when it is earned. The liability for vested vacation and sick pay is reflected in the accompanying balance sheets under the captions "compensated absences." The compensated absences earned for fiscal year 2006 were valued at $10.6 million and those taken were valued at $8.9 million. The total compensated absences liability was $22.9 million and $21.2 million at June 30, 2006 and 2005, respectively.

Deferred Income

Deferred income consists primarily of amounts received from the Massachusetts Highway Department ("MHD") as compensation for temporary and permanent easements in certain properties at Logan Airport which provide MHD with sufficient rights in land owned by the Authority to permit MHD to complete the Ted Williams Tunnel project, as currently designed.
Income received from these easements will be recognized as follows: for temporary easements, over the shorter of the asset's useful life or the original term; and for permanent easements, over the estimated useful life of the assets constructed, which is 25 years.

Arbitrage - Rebate Liability

The U.S. Treasury has issued regulations on calculating the rebate due to the U.S. Government on arbitrage profits and determining compliance with the arbitrage rebate provisions of the Internal Revenue Code of 1986, as amended. Arbitrage profits arise when the Authority temporarily invests the proceeds of tax-exempt debt in securities with higher yields than the yield on such debt. The Authority records a liability for arbitrage profits, if any, when the likelihood of payment becomes probable. The Authority recorded arbitrage rebate liabilities of $0.6 million as

A. Summary of Significant Accounting Policies, continued

of June 30, 2006 consisting of $0.3 million for both the 2005-B Bonds and PFC Revenue Bonds Series 1999-A and B. As of June 30, 2005, the Authority recorded an arbitrage rebate liability of $0.3 million also related to the PFC Revenue Bonds Series 1999-A and B.

Passenger Facility Charges
Revenues derived from the collection of passenger facility charges ("PFCs") are recognized on the accrual basis and reported as non-operating revenue by the Authority.

Net Assets
Net assets represent the residual interest in the Authority's assets after liabilities are deducted and consist of three components: Invested in capital assets, net of related debt; restricted; and unrestricted. Net assets invested in capital assets, net of related debt, include capital assets, net of accumulated depreciation, reduced by outstanding debt allocable to such assets net of applicable debt service reserves. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. The Authority's restricted assets are expendable. All other net assets are unrestricted.

Intangible Assets
Intangible assets consist of the rights to use certain parking spaces acquired by the Authority as part of the ParkEx Acquisition. During fiscal 2001, the Authority purchased the ownership interest of two partnerships that owned and operated a park and fly business ("ParkEx") located near the Airport and held the contractual rights to park 1,377 automobiles in East Boston (the "ParkEx Parking Spaces"). The total amount allocated to the ParkEx Parking Spaces is approximately $38.6 million and is presented as Intangible Assets, net of amortization, in the accompanying financial statements as of June 30, 2006. These intangible assets are amortized on a straight-line basis over 30 years. Amortization expense related to intangibles assets was $1.5 million for both fiscal year 2006 and 2005, respectively.

Joint Venture
The Authority has a 33% participating interest in a joint venture (known as the Anderson Regional Transportation Center). In accordance with the joint venture agreement, the Authority records as income or loss its proportionate share of the net earnings or losses of the joint venture with a corresponding increase or decrease in the carrying value of the investment. The investment in the joint venture is reduced as cash distributions are received and is increased as cash contributions are made. (See Note M.)

Financial Statement Reclassification
Certain accounts in the June 30, 2005 financial statements have been reclassified to conform with the June 30, 2006 presentation.

B. Reconciliation of Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the 1978 Trust Agreement and the PFC Trust Agreement to the Financial Statements

The provisions of the Enabling Act, the 1978 Trust Agreement and the PFC Trust Agreement prescribe certain accounting practices to be followed in maintaining the accounts and records of the Authority.

Under the 1978 Trust Agreement, cash revenues of the Authority are deposited daily into the Revenue Fund established pursuant to the 1978 Trust Agreement and are transferred daily to the cash concentration account. Once each month, all such revenues are transferred to the various funds established pursuant to the 1978 Trust Agreement. After providing for operating expenses, including pension expense and transfers to the self insurance account, cash revenues are then transferred to the Interest and Sinking Fund, which are applied to debt service on any outstanding revenue bonds, the Maintenance Reserve Fund, the Payment In Lieu of Taxes Fund and, if applicable, the Capital Budget Fund and finally the Improvement and Extension Fund. Cash and investments held in the Improvement and Extension Fund, to the extent designated by the Authority, are deposited in the capital budget account within such fund. PFCs are deposited in the PFC Pledged Revenue Fund established pursuant to the PFC Trust Agreement and applied monthly to pay debt service on PFC Revenue Bonds as required in the PFC Trust Agreement. Any remaining funds are transferred to the PFC Capital Fund. In order to comply with federal tax requirements, the Authority also establishes a separate rebate account for each series of its bonds. In fiscal year 2006, rebate accounts were funded for the Series 2005-B Rebate Account and the Series 1999-A and 1999-B PFC Rebate Accounts. In fiscal year 2005, the only rebate accounts that were funded were the Series 1999-A and 1999-B PFC Rebate Accounts.

B. Reconciliation of Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the 1978 Trust Agreement to the Financial Statement, continued

Presented below are the 2006 and summary 2005 revenues and operating expenses as determined in accordance with the 1978 Trust Agreement, and a reconciliation to net assets as presented in the accompanying statements of revenues, expenses and changes in net assets under accounting principles generally accepted in the United States of America ("GAAP").

			Port Properties					
(In thousands)	**Bridge**	**Airport Properties**	**Maritime Operation**	**Maritime Real Estate**	**Investment Income**	**Net change in the fair value of investments**	**2006 Total**	**2005 Total**
Trust revenues:								
Pledged revenues	$ 28,261	$ 403,051	$ 46,594	$ 16,238	$ 15,346	$ -	$ 509,490	$ 464,612
Operating grants	6	3,280	163	41	-	-	3,490	5,454
Adjustment for uncollectible accounts	6	(2,561)	(169)	115	-	-	(2,609)	(320)
Total	28,273	403,770	46,588	16,394	15,346	-	510,371	469,746
Trust operating expenses:								
Operations and maintenance	6,302	179,408	40,447	8,687	-	-	234,844	210,514
Administration (5)	2,581	36,829	4,095	4,148	-	-	47,653	48,023
Insurance	454	6,506	340	406	-	-	7,706	9,026
Pension	196	3,027	269	223	-	-	3,715	2,141
Total	9,533	225,770	45,151	13,464	-	-	293,918	269,704
Excessof revenues over operating Expenses as prescribed by the 1978 Trust Agreement	18,740	178,000	1,437	2,930	15,346	-	216,453	200,042
Add:								
Investment income self insurance / others (3)	-	-	-	-	2,566	-	2,566	1,924
Passenger facility charge (PFC) (3)	-	48,324	-	-	1,265	-	49,589	35,937
Earnings associated with PFC bond funds (3)	-	-	-	-	1,471	-	1,471	1,423
Capital grant revenue (3)	-	35,262	947	-	-	-	36,209	47,709
Gain on sale of equipment (2) (4)	17	44	41	-	-	-	102	60
Administration expenses (1) (5)	40	818	122	20	-	-	1,000	2,000
Settlement of claims (3)	9	399	26	4	-	-	438	3,354
Nonoperating other revenues (4)	22	252	-	77	-	-	351	-
Less:								
PILOT (4)	(1,140)	(12,730)	(1,514)	(387)	-	-	(15,771)	(12,028)
Self insurance cost (1)	29	966	92	(13)	-	-	1,074	(2,195)
Interest expense (4)	(423)	(67,689)	(1,275)	(214)	-	-	(69,601)	(64,620)
Net change in the fair value of investments (4)	-	-	-	-	-	(2,870)	(2,870)	-
Depreciation and amortization (2) (4)	(3,429)	(121,687)	(11,160)	(5,795)	-	-	(142,071)	(136,007)
Operating expenses (4)	(53)	(1,140)	(16)	(306)	-	-	(1,515)	(2,391)
Nonoperating other expenses (4)	-	(1,926)	-	(854)	-	-	(2,780)	(230)
Increase in net assets	$ 13,812	$ 58,893	$ (11,300)	$ (4,538)	$ 20,648	$ (2,870)	$ 74,645	$ 74,978

B. Reconciliation of Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the 1978 Trust Agreement to the Financial Statement, continued

(1) Expensed under 1978 Trust Agreement, not an expense under GAAP.
(2) Equipment is depreciated under GAAP but not under 1978 Trust Agreement.
(3) Not revenue under 1978 Trust Agreement, revenue under GAAP.
(4) Not operating income/(expense) under 1978 Trust Agreement, income/(expense) under GAAP.
(5) The Authority allocates total administrative expenses based upon the proportionate amount of revenues, direct expenses and capital expenditures by facility.

C. Cash, Cash Equivalents and Investments

The following summarizes the Authority's cash, cash equivalents and investments valued at amortized cost on June 30, 2006 by the various funds and accounts established under the 1978 Trust Agreement and the PFC Trust Agreement. Therefore, the reduction in fair value of investments of $2.9 million recorded in the Statements of Revenue, Expenses and Change in Net Assets for the year ended June 30, 2006 has not been reflected in the following schedule. Summary 2005 information is also presented:

	Current				Non-current			
	Cash, cash equivalants		Investments		Investments			
(In thousands)	Assets whose use is:				Assets whose use is:		2006	2005
	Unlimited	Limited	Unlimited	Limited	Unlimited	Limited	Total	Total
User defined for specific purposes:								
Operating/Revenue Fund	$ 35,559						$ 35,559	$ 33,350
Self-Insurance Account		2,618		29,095		9,597	41,310	41,557
Maintenance Reserve Fund		4,979		34,510		2,000	41,489	43,719
Payments in Lieu of Taxes Fund		1,513		1,995			3,508	7,229
Capital Budget Account		18,288		94,608		18,173	131,069	88,360
Improvement and Extension Fund	5,083		68,535	3,236	12,054		88,908	86,442
1997-A Debt Service		443		4,278			4,721	7,468
1997-A Debt Service Reserve		5		1,486		3,713	5,204	5,200
1997-B Debt Service		249		1,764			2,013	1,989
1997-B Debt Service Reserve		5				3,024	3,029	3,028
1998-A Debt Service		478		2,415			2,893	2,895
1998-A Debt Service Reserve						5,019	5,019	5,019
1998-B Debt Service		292		2,347			2,639	2,556
1998-B Debt Service Reserve						4,427	4,427	4,427
1998-C Debt Service		1,385		13,877			15,262	14,931
1998-C Debt Service Reserve						16,492	16,492	16,519
1998-D Debt Service		296		2,280			2,576	3,035
1998-D Debt Service Reserve		67				3,511	3,578	3,576
1998-E Debt Service		479		3,390			3,869	3,828
1998-E Debt Service Reserve		5		5,800			5,805	5,827
1999-C Debt Service		244		2,424			2,668	5,489
1999-C Debt Service Reserve		33		5,586			5,619	5,515
1999-D Debt Service		452		3,019			3,471	3,438
2003-A Debt Service		1,197		8,129			9,326	8,108
2003-A Debt Service Reserve						14,302	14,302	14,302
2003-B Project							-	23
2003-B Debt Service		376					376	214
2003-B Debt Service Reserve						5,681	5,681	5,681
2003-C Debt Service		784		6,919			7,703	7,449
2003-C Debt Service Reserve						9,916	9,916	9,916
2005-A Project		8,657		12,170			20,827	158,537
2005-A Debt Service		5,973		2,149			8,122	-
2005-A Debt Service Reserve		59		4,022		8,519	12,600	12,551
2005-B Project		12,261					12,261	26,897
2005-B Debt Service		468					468	134
2005-B Debt Service Reserve		4		1,916			1,920	1,916
2005-C Debt Service		2,593		3,046			5,639	-
2005-C Debt Service Reserve		4		8,207		7,069	15,280	15,213
2005-B Rebate		166					166	-
2003-A CP Project Account							-	294
2003-B CP Project Account		50					50	1,049
Park Ex Principal 2000						9,061	9,061	8,533
Park Ex Interest 2000		1,295					1,295	1,293
Park Ex Principal 2001						7,703	7,703	7,255
Park Ex Interest 2001		1,101					1,101	1,099
Maintenance Reserve-Term A Escrow		97				1,307	1,404	274
PFC Pledged Revenue		2,248					2,248	3,896
PFC Capital		574		11,588			12,162	16,337
PFC Collection		445					445	344
1999-A&B PFC Funded Interest				5,085			5,085	4,962
1999-A&B Non-PFC Fund Interest				295			295	681
1999-A Non-PFC Funded Debt Service Reserve						25,578	25,578	25,578
1999-B PFC Principal				11,250			11,250	10,715
1999-A Rebate – PFC		74					74	76
1999-B Rebate - PFC		308					308	528
	$ 40,642	$ 70,565	$ 68,535	$286,886	$ 12,054	$ 155,092	$ 633,774	$ 739,252

C. Cash, Cash Equivalents and Investments, continued

The carrying amount of the Authority's cash deposits was $10,897,000 and $8,964,000 at June 30, 2006 and 2005, respectively. The bank balance was $17,694,000 and $15,456,000 at June 30, 2006 and 2005, respectively. The nature of the reconciling items between the book and bank balance consisted primarily of outstanding checks which had not cleared the bank at year-end.

The following summarizes the Authority's cash and cash equivalents and investments by type held at June 30, 2006. Summary 2005 information is also presented.

(In thousands)	Amortized Cost	Fair Value as of June 30
Forward delivery agreements	$ 144,899	$ 144,841
Guaranteed Investment Contracts	16,764	16,764
U.S. Government Agencies and Instrumentalities:		
Treasury Note / Bill	13,058	12,869
Federal Agricultural Mortgage Corp. (Farmer Mac)	3,753	3,702
Federal Farm Credit (FFC)	6,533	6,501
Federal National Mortgage Association (FNMA)	100,716	99,422
Federal Home Loan Bank (FHLB)	126,093	125,109
Federal Home Loan Mortgage Corp. (FHLMC)	89,644	89,047
Total U.S. Government Agencies and Instrumentalities	339,797	336,650
Mutual fund (MMDT) and others	65,895	65,895
Gov't Fund (Morgan Stanley)	25,108	25,108
Municipal Savings (Citizens Bank)	4,490	4,490
Total Mutual Fund and Others	95,493	95,493
Corporate Commercial Paper (Citigroup, GE Capital)	20,895	20,896
Total Cash Equivalents and Investments	617,848	614,644
Cash deposit	10,897	10,897
Certificates of deposit	5,029	5,029
Total at June 30, 2006	$ 633,774	$ 630,570
Total at June 30, 2005	$ 739,252	$ 736,983

C. Cash, Cash Equivalents and Investments, continued

The Authority's investments are made in accordance with the provisions of the 1978 Trust Agreement or the PFC Trust Agreement and the investment policy adopted in 2000 by the Members of the Authority (the "Investment Policy"). The goals of the Investment Policy are, in descending order, to preserve capital, to provide liquidity and to generate interest income. As directed by the Investment Policy, the Authority has established an Investment Oversight Committee, comprised of Authority staff, which meets quarterly to review the Authority's investment portfolio for compliance with the Investment Policy and to establish, revise and monitor investment strategy and external benchmarks for the performance of the Authority's investments.

The Authority is authorized by the 1978 Trust Agreement and the PFC Trust Agreement to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, in bonds or notes of public agencies or municipalities, in the Massachusetts Municipal Depository Trust ("MMDT", an unrated, money market-like governmental investment pool), in bank time deposits and in forward delivery agreements, and certain other types of permitted investments specified therein. In May 2005 after the sale of the 2005 Bonds, amendments to the 1978 Trust Agreement became effective that also permit the investment of the Authority's funds in highly rated money market funds, commercial paper sold by bank holding companies, banker's acceptances and the purchase of Federal Home Loan Mortgage Corporation securities. (The PFC Trust Agreement already permitted these investments.)

As of June 30, 2005, the Authority implemented the disclosure requirements of Governmental Accounting Standards Board Statement No. 40 "Deposit and Investment Risk Disclosures" ("GASB 40") and, accordingly the Authority has assessed the Custodial Credit Risk, the Concentration of Credit Risk, Credit Risk and Interest Rate Risk of its Cash and Investments.

a) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority would not be able to recover the value of its deposits, investments or collateral securities that were in the possession of an outside party. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured or not registered in the name of the Authority and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name.

The Authority maintains depository accounts with Bank of America, N.A., Wachovia Bank, N.A., and with the Bank of New York, the PFC Trustee. The Authority maintains payroll disbursement, lockbox and collection accounts (for other than PFCs) with the Bank of America, N.A. None of these accounts are collateralized.

C. Cash, Cash Equivalents and Investments, continued

The following are balances on deposit on June 30, 2006 and 2005:

Bank	Balance as of June 30, 2006 (in thousands)	Balance as of June 30, 2005 (in thousands)
Bank of America, N.A	$ 3,047	$ 3,379
Wachovia Bank, N.A	13,108	11,733
Bank of New York	1,539	344
Total	$ 17,694	$ 15,456

As of June 30, 2006, all investments were held on behalf of the Authority by the Trustee, the PFC Trustee or custodians in the Authority's name. Any repurchase agreements are fully collateralized by obligations of the U.S. Government or agencies of the U.S. Government. However, no repurchase agreements were held by the Authority during fiscal year 2006. The 1978 Trust Agreement and the PFC Trust Agreement both require that securities collateralizing repurchase agreements must continuously have a fair value at least equal to the cost of the agreement plus accrued interest.

The Authority's investments in forward delivery agreements are in the form of a guaranteed investment contract which provides for, among other things, the sequential delivery of securities to be sold to the Trustee or PFC Trustee, as applicable, periodically at a discount from maturity value such that the aggregate discount equals the interest rate previously agreed between the Authority and the provider of the guaranteed investment contract.

The total unrealized loss due to the changes in fair value of investments as of June 30, 2006 was approximately $3.2 million, of which approximately $2.9 million related to investments with maturities in excess of one year.

b) Concentration of Credit Risk

Concentration of Credit Risk is assumed to arise when the amount of investments that the Authority has with any one issuer exceeds 5 percent of the total value of the Authority's investments.

C. Cash, Cash Equivalents and Investments, continued

The Investment Policies and Procedures adopted by the Investment Oversight Committee on August 14, 2003 in accordance with the Investment Policy set forth the diversification limits for each type of security as shown below:

Type of Security	Maximum per fund	Maximum per the Authority-wide portfolio
U.S. Treasury Bills and Notes	100%	100%
Federal Agencies	100%	100%; 35% per issuer
Bankers Acceptances & Commercial Paper	10% per issuer	35% per issuer
Repurchase Agreements <30 days	Overnight repos – 100%	100% per fund; 25% per counterparty
	Longer repos – 50%	50% per fund; 25% per counterparty
Full Flex Repos	100%	25% per counterparty
Forward Delivery Agreements	100% if collateralized with Treasuries or Federal Agencies	50% per counterparty
MMDT	100%	25%

On May 24, 2006, the Investment Oversight Committee set the maximum for highly rated commercial paper within the Authority wide portfolio at 5%.

As of June 30, 2006, the portions of the Authority-wide portfolio, excluding the MMDT and U.S. Government guaranteed obligations, that exceed 5% of the portfolio are as follows:

Issuer:	Fiscal Year 2006 % of Portfolio	Fiscal Year 2005 % of Portfolio
Federal Home Loan Bank	27.70%	18.97%
Federal Home Loan Mortgage Corp.	21.31%	16.26%
Federal National Mortgage Association	22.22%	32.57%

c) Credit Risk

Credit risk is the risk that the Authority will lose money because of the default of the security issuer or investment counterparty.

The Authority's 1978 Trust Agreement and PFC Trust Agreement each stipulate that, in addition to U.S. Treasury and government agency obligations, only certain highly rated securities are eligible investments, including bonds or obligations of any state or political subdivision thereof rated in the two highest rating categories by both Moody's and S&P; commercial paper of a U.S. corporation or finance company or money market funds rated in the highest rating category, without regard to gradations within categories, by both Moody's and S&P; and investment contracts with banks whose long-term unsecured debt rating is in one of the two highest rating categories by both Moody's and S&P.

C. Cash, Cash Equivalents and Investments, continued

The table below shows the fair value and credit quality of the Authority's investment portfolio, by investment type, as of June 30, 2006 and June 30, 2005. The table distributes and values the individual securities held under the forward delivery agreements. In contrast, the table on page 53 aggregates the carrying amount and fair value of the forward delivery agreements as a unified type of investment.

Investment Type	2006		2005	
	Fair Value (In thousands)	Credit Rating (1)	Fair Value (In thousands)	Credit Rating (1)
U.S. Government Obligations	$ 12,869	N/A	$ 19,448	N/A
Federal Agency Bonds/Notes	274,763	AAA/Aaa	254,528	AAA/Aaa
Federal Agency Discount Notes	173,128	A-1+/P-1	251,347	A-1+/P-1
Commercial Paper	20,896	A-1+/P-1	-	N/A
Federal Agricultural Mortgage Corp.	3,702	Unrated	3,742	Unrated
Investments under forward delivery agreement held in the form of cash	17,029	N/A	29,449	N/A
MMDT	65,895	Unrated	119,209	Unrated
Morgan Stanley Money Market	25,108	AAA/Aaa	25,004	AAA/Aaa
Citizens Bank Money Market	4,490	Unrated	4,484	Unrated
One United Bank Certificate Deposit	5,029	AAA/Aaa (2)	5,019	AAA/Aaa (2)
Guaranteed Investment Contracts	16,764	AAA/Aaa (3)	15,789	AAA/Aaa (3)

(1) The ratings shown in this table are from S&P and Moody's, repectively

(2) Collateralized by Federal Agency Notes

(3) Underlying Rating of the Counterparties

d) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The Investment Oversight Committee has set targets for the preferred maturity structure for the investments held for each fund and account and also sets targets each quarter for the effective duration for each fund that reflect the need for liquidity and the expected tradeoffs between yield and term for each different fund and account. The tables below show the current investment limitation/mandate for each fund and account and the fair value and effective duration for each fund and account as of June 30, 2006 and June 30, 2005.

C. Cash, Cash Equivalents and Investments, continued

1. Accounts and Funds pledged under the terms of the 1978 Trust Agreement, as amended:

Account or Fund	Investment Mandate	2006 Fair Value (In thousands)	2006 Effective Duration	2005 Fair Value (In thousands)	2005 Effective Duration
Disbursement Concentration Account	Invest until funds are needed	$ 25,108	0.003	$ 25,004	0.003
Debt Service Accounts (Senior Lien)	Invest until next pay date on either Jan. 1st or July 1st or the next business day	71,701	0.003	61,567	0.003
Debt Service Accounts (Interest Amounts) (Subordinated Lien)	Invest until next pay date on either Jan. 1st or July 1st or the next business day	2,396	0.003	2,392	0.003
Debt Service Accounts (Principal Amounts) (Subordinated Lien)	Principal invested until date of bullet maturity	16,764	12.13	15,789	12.34
2005-B Bond Rebate Account	Invest until the 5 year payment date	166	0.003	-	-
Debt Service Reserve Accounts	Average maturity < 7 years	107,330	2.59	108,081	3.58
Maintenance Reserve Fund	Average maturity < 5 years	41,327	0.473	43,493	0.42
PILOT Fund	Invest until next payment date (less than one year)	3,509	0.019	7,229	0.02
Capital Budget Account (within I&E)	Invest until next payment dates	130,402	0.459	87,727	0.75
Improvement & Extension (I&E) Fund	Invest until expected payment dates	85,263	0.499	82,978	0.64
Self Insurance Account	Invest until expected payment dates	41,015	0.476	41,281	0.73
Project Accounts within Construction Funds for Series: 2005-A&B Bonds and for commercial paper	Invest until expected payment dates	33,090	0.089	186,642	0.40

C. Cash, Cash Equivalents and Investments, continued

2. Accounts and Funds established per the terms of the PFC Trust Agreement:

Account or Fund	Investment Mandate	2006 Fair Value (In thousands)	2006 Effective Duration	2005 Fair Value (In thousands)	2005 Effective Duration
PFC Pledged Revenue Fund	Invest until the last business day of the month	$ 2,248	0.003	$ 3,896	0.003
PFC Debt Service Accounts	Invest until next pay date on either Jan. 1st or July 1st or the next business day	16,630	0.003	16,355	0.003
PFC Rebate Accounts	Invest until the 5 year payment date	382	0.003	604	0.003
PFC Debt Service Reserve Accounts	Invest until date of last principal payment	25,556	8.308	25,574	8.87
PFC Capital Fund	Invest until payment dates	12,147	0.105	16,337	0.003

3. Accounts and Funds established per Other Agreements:

Account or Fund	Investment Mandate	2006 Fair Value (In thousands)	2006 Effective Duration	2005 Fair Value (In thousands)	2005 Effective Duration
I&E Dredging Project	Invest until expected payment dates	$ 3,237	0.07	$ 3,070	0.21
Maintenance Reserve-Term A Escrow	Average maturity < 5 years	1,402	0.88	-	-

It is the Authority's policy to hold investments until maturity in order to insulate the Authority's investment earnings from interest rate risk.

D. Capital Assets

Capital assets (excluding construction in progress) at June 30, 2006 and 2005 are comprised of:

(In thousands)	2006	2005
Facilities completed by operation:		
Airport	$ 2,892,162	$ 2,893,031
Bridge	137,743	156,119
Port	419,556	455,853
Capital assets (excluding construction in progress)	$ 3,449,461	$ 3,505,003

A summary of changes in capital assets for the year ending June 30, 2006 is as follows:

(In thousands)	Beginning balance July 1, 2005	Additions and Transfers	Deletions and Transfers	Ending balance June 30, 2006
Capital assets, not depreciable:				
Construction in progress	$ 135,052	$ 254,364	$ (203,531)	$ 185,885
Land	141,323	255		141,578
Capital assets, depreciable:				
Bridge and bridge improvements	144,243	245	(22,095)	122,393
Buildings	2,038,274	135,591	(97,676)	2,076,189
Runway & other paving	515,041	36,979	(63,032)	488,988
Roadway	513,974	10,661	(24,657)	499,978
Machinery & equipment	152,148	29,916	(61,729)	120,335
Total depreciable Capital Assets	3,363,680	213,392	(269,189)	3,307,883
Total Capital Assets	3,640,055	468,011	(472,720)	3,635,346
Less: accumulated depreciation:				
Bridge and bridge improvements	(88,428)	(2,374)	22,095	(68,707)
Buildings	(795,986)	(80,377)	96,821	(779,542)
Runway & other paving	(197,769)	(16,667)	63,032	(151,404)
Roadway	(113,629)	(23,234)	24,657	(112,206)
Machinery & equipment	(102,985)	(18,176)	61,728	(59,433)
Total Accumulated Depreciation	(1,298,797)	(140,828)	268,333	(1,171,292)
Total depreciable Capital Assets, net	2,064,883	72,564	(856)	2,136,591
Total Capital Assets, net	$ 2,341,258	$ 327,183	$ (204,387)	$ 2,464,054

Total depreciation for fiscal year 2006 was $140.8 million, an increase of $5.5 million from fiscal year 2005, which was $135.3 million.

D. Capital Assets, continued

During the year, the Authority wrote off $264.4 million of fully depreciated capital assets that were determined to be no longer in use. The Authority currently has $141.3 million of fully depreciated capital assets that are still in service.

Estimated useful lives used in the calculation of depreciation are as follows:

Bridge	100 years
Bridge improvements	10 to 25 years
Buildings	25 years
Runways and other airfield paving	25 years
Roadway	25 years
Machinery and equipment	5 to 10 years

E. Passenger Facility Charge

In 1993, the Authority received initial approval from the Federal Aviation Administration ("FAA") to impose a $3.00 passenger facility charge ("PFC") at Logan Airport. PFCs collected by the Authority can be used for capital projects determined by the FAA to be eligible in accordance with the Aviation Safety and Capacity Expansion Act of 1990. Effective October 1, 2005, the FAA increased the Authority's collection authority to $4.50. Through June 30, 2006 the Authority had collected $453.5 million in PFCs.

In February 1998, the Authority received approval from the FAA to increase its collections up to $927.4 million with a projected expiration date of October 1, 2017. The Authority has also received approval from the FAA to use or expend a total of $927.4 million for preliminary design projects as well as for the final design, construction and financing costs associated with the eligible portions of residential soundproofing, Terminal E Modernization, circulating roadways, the elevated walkways, and the International Gateway Project.

On May 6, 1999, the Authority entered into the PFC Trust Agreement with The Bank of New York, as trustee, simultaneously removing PFC revenues from the pledge of the 1978 Trust Agreement. All PFCs collected by the Authority are currently pledged under the PFC Trust Agreement. On June 16, 1999, the Authority issued $249,355,000 of PFC Revenue Bonds, Series 1999-A and 1999-B pursuant to the PFC Trust Agreement, of which $201,285,000 was outstanding as of June 30, 2006 (prior to the principal payment made on July 1, 2006) and $211,710,000 was outstanding as of June 30, 2005 (prior to the principal payment made on July, 1, 2005.).

On July 29, 2005, the Authority submitted a request to amend the existing PFC authorization to increase the collection amount from $3.00 to $4.50, and to decrease the FAA-approved amount for certain completed projects and increase the FAA-approved amount for the International Gateway Project by 11.4%. On September 2, 2005, the FAA issued a record of decision increasing the PFC to $4.50, effective October 1, 2005, and shortening the projected expiration date to February 1, 2011.

On December 6, 2005 the Authority submitted an application to impose and use PFCs for additional soundproofing, for six airfield projects and for various security projects. On April 20, 2006, the FAA issued a Final Agency Decision approving the requested projects, increasing the

E. Passenger Facility Charge, continued

collection authority to $995,033,217, increasing the use authority to $982,191,217 and extending the projected expiration date to February 1, 2016.

The amount of assets derived from PFC revenue and the proceeds of bonds issued pursuant to the PFC Trust Agreement invested in Authority facilities, operations and reserves that are restricted for future PFC project expenses is as follows:

(In thousands)	June 30, 2006	June 30, 2005
Total assets, PFCs	$ 621,251	$ 607,653
PFC funds and PFC Bond funds expended, net	(557,980)	(538,722)
Other PFC related assets	(5,780)	(4,473)
PFCs collected to date and PFC Bond proceeds restricted but not yet expended	$ 57,491	$ 64,458

F. Funded Debt

The Authority's long-term bonds issued and outstanding as of June 30, 2006 and 2005 were as follows:

Bonds Payable (in thousands)	Issue Date	Interest Rates	Maturity Date	Serial/Term Outstanding Bond Balance		Outstanding Bond Balance 2006	Outstanding Bond Balance 2005
Senior Debt - 1978 Trust Agreement							
Series 1997-A Revenue Bonds	07/31/97						
Serial		5.25% - 6.0%	2006-2008	$	10,045		
						10,045	13,030
Series 1997-B Revenue Bonds	08/15/97						
Serial		4.8% - 5.3%	2006-2017		15,455		
Term		5.375%	2022		9,825		
Term		5.375%	2027		12,780		
						38,060	38,985
Series 1997-C Refunding Bonds	07/31/97						
Serial - Taxable		4.5% - 5.125%	2006-2017		12,065		
Term - Taxable		5.125%	2020		4,290		
						16,355	17,090
Series 1998-A Refunding Bonds	01/29/98						
Serial		4.6%-5.75%	2009-2018		86,585		
Term		5.0%	2023		18,075		
						104,660	104,660
Series 1998-B Refunding Bonds	01/29/98						
Serial		5.0%-5.375%	2006-2018		35,655		
						35,655	37,215
Series 1998-C Refunding Bonds	01/29/98						
Serial		6.35%-6.45%	2006-2009		49,305		
						49,305	61,915
Series 1998-D Revenue Bonds	08/05/98						
Serial		4.5%	2006-2009		6,465		
Term		5.0%	2028		34,870		
						41,335	42,780
Series 1998-E Revenue Bonds	08/05/98						
Serial		4.5% - 5.25%	2006-2013		17,645		
Term		5.25%	2018		15,140		
Term		5.0%	2028		44,275		
						77,060	78,845
Series 1999-C Revenue Bonds	11/12/99						
Serial		4.7% - 5.0%	2006-2010		12,660		
						12,660	14,855
Series 1999-D Revenue Bonds	11/12/99						
Serial		4.9% - 6.25%	2006-2019		28,445		
Term		6.0%	2022		9,620		
Term		6.0%	2029		30,210		
						68,275	69,625
Series 2003-A Revenue Bonds	05/22/03						
Serial		2.0% - 5.0%	2006-2025,2033		124,190		
Term		5.0%	2028		30,820		
Term		5.0%	2033		61,650		
						216,660	219,610

(Continued on next page)

F. Funded Debt, continued

Bonds Payable (in thousands)	Issue Date	Interest Rates	Maturity Date	Serial/Term Bond Outstanding Balance	Outstanding Bond Balance 2006	Outstanding Bond Balance 2005
Senior Debt - 1978 Trust Agreement						
Series 2003-B Revenue & Refunding Bonds	05/22/03					
Serial		Variable	2006-2033	$ 75,225		
					75,225	77,575
Series 2003-C Refunding Bonds	05/22/03					
Serial		2.1% - 5.0%	2006-2018	75,475		
					75,475	80,970
Series 2005-A Revenue Bonds	05/05/05					
Serial		3.0% - 5.0%	2006-2028	119,820		
Term		5.0%	2029-2035	72,315		
					192,135	192,135
Series 2005-B Revenue Bonds	05/05/05					
Serial		Variable	2006-2035	29,250		
					29,250	29,725
Series 2005-C Refunding Bonds	05/05/05					
Serial		3.0% - 5.0%	2007-2029	231,890		
					231,890	231,890
Subordinate Debt - 1978 Trust Agreement						
Series 2000-A, B & C Revenue Bonds	12/29/00					
Term		6.45%	2030	40,000		
					40,000	40,000
Series 2001-A, B & C Revenue Bonds	01/02/01					
Term		6.45%	2031	34,000		
					34,000	34,000
Senior Debt - PFC Trust Agreement						
Series 1999-A PFC Revenue Bonds	06/09/99					
Term		5.15%	2015	5,120		
Term		5.125%	2016	18,335		
Term		5.125%	2017	44,210		
					67,665	67,665
Series 1999-B PFC Revenue Bonds	06/09/99					
Serial		4.5% - 5.5%	2006-2015	133,620		
					133,620	144,045
Total long term Bonds principal					**1,549,330**	**1,596,615**
Plus unamortized discount/premium					45,693	47,599
Less: unamortized loss on refunding					(23,404)	(24,724)
Total Funded Debt					$ 1,571,619	$ 1,619,490
Less: current maturities of funded debt, including unamortized discount, premium & loss on refunding					(53,206)	(47,017)
Non current maturities of funded debt, including unamortized discount, premium & loss on refunding					$ 1,518,413	$ 1,572,473

F. Funded Debt, continued

The following is a summary of the Authority's activity with respect to its long term Bonds outstanding for the years ended June 30, 2006 and 2005:

(in thousands)	2006	2005
Long term Bonds principal, beginning of year	$ 1,596,615	$ 1,415,605
New debt issued (par)	-	453,750
Principal paid on refunded debt	-	(229,660)
Principal paid on funded debt	(47,285)	(43,080)
Long term Bonds principal, end of year	$ 1,549,330	$ 1,596,615

The following is a summary of the maturities and sinking fund requirements not including any unamortized discount or premium. Scheduled principal payments on long-term bonds are due annually on July 1 as follows (except for the 2003-B and 2005-B Bonds, which are auction rate securities with principal due on the last auction date preceding July 1.

(in thousands)

Due Fiscal Year	Principal	Interest*	Total Debt Service
2007	$ 52,620	$ 78,448	$ 131,068
2008	56,700	75,858	132,558
2009	59,825	72,941	132,766
2010	62,160	70,020	132,180
2011	65,745	67,123	132,868
2012 - 2016	322,175	285,349	607,524
2017 - 2021	267,400	202,530	469,930
2022 - 2026	197,135	139,557	336,692
2027 - 2031	283,340	78,603	361,943
2032 - 2036	182,230	15,701	197,931
Total	$ 1,549,330	$ 1,086,130	$ 2,635,460

* The interest on the Series 2003-B Bonds including fees, is projected at 3.936% per annum, which was the debt service (interest and fees) as of the auction held on June 13, 2006. The interest on the Series 2005-B Bonds including fees, is projected at 4.250% per annum, which was the debt service (interest and broker dealer fees) as of the auction held on June 27, 2006, plus an annual auction agent fee of $2,000.

F. Funded Debt, continued

Senior Debt - 1978 Trust Agreement: On May 5, 2005, the Authority issued the 2005 Bonds in a principal amount of $453,750,000, and with an original issue premium of $24,453,000. The 2005-A Bonds and the 2005-B Bonds were issued to finance a portion of the Authority's capital program. The 2005-C Bonds were issued to advance refund portions of the Authority's Revenue Bonds, Series 1997-A, Series 1998-D and 1999-C. The advance refunding resulted in the recognition of an accounting loss of $15.0 million, which will amortize over the life of defeased bonds. For fiscal year 2005, the Authority recorded a loss on refunding of $108,000. The aggregate difference in debt service between the refunded and the refunding debt service was $14.86 million. This advance refunding had an economic gain and achieved a net present value savings of $9.77 million or 4.2%. While debt service for the refunded bonds in fiscal year 2006 increased by $406,000, the annual savings for fiscal year 2007 through fiscal year 2027 are approximately $625,000.

The 2005-A and 2005-C Bonds are fixed rate Revenue Bonds. The 2005-B Bonds are auction rate securities.

The Authority reviews each bond sale to determine if there is value in providing investors with municipal bond insurance. The Authority's Series 2003 Bonds are insured by MBIA and the Series 2005 Bonds are insured by Ambac.

Subordinate Debt - 1978 Trust Agreement: On December 29, 2000 and January 2, 2001, as a component of the ParkEx Acquisition (see Note A: Intangible Assets), the Authority issued its Subordinated Revenue Bonds, Series 2000-A, 2000-B and 2000-C, and Series 2001-A, 2001-B and 2001-C, respectively, in the aggregate principal amount of $74 million, bearing interest at 6.45% per annum (collectively, the "Subordinated Bonds"). The Subordinated Bonds are payable solely from funds on deposit in the Improvement and Extension Fund and in a separate account not subject to the pledge of the 1978 Trust Agreement or the PFC Trust Agreement (the "Subordinated Bonds Principal Account").

The payment of debt service on the Subordinated Bonds is subordinate to all of the Authority's outstanding Revenue Bonds. The Authority has invested $12 million on deposit in the Subordinated Bonds Principal Account in two investment contracts which, at their stated maturities, will provide for the $74 million principal of the Subordinated Bonds at their respective maturities.

Senior Debt - PFC Trust Agreement: In 1999 the Authority issued two series of its PFC Revenue Bonds under the 1999 PFC Trust Agreement that are backed solely by PFC revenues. These Bonds are insured by FSA.

Defeased Bonds: In prior years, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with the trustee for such bonds to provide for all future debt service payments on the defeased bonds. Accordingly, the trust fund assets and the liability for the defeased bonds are not included in the Authority's Financial Statements. The Series 1969, 1971, 1973 and 1982 Bonds were escrowed to maturity: the 1969 Bonds have a final maturity of July 1, 2008; the 1971 Bonds have a final maturity of July 1, 2011; the 1973 Bonds have a final maturity of July 1, 2012; and the 1982 Bonds have a final maturity of July 1, 2013. Certain of the Series 1997-A, 1998-D and 1999-C Bonds have been escrowed until their respective first optional

F. Funded Debt, continued

redemption dates: the Series 1997-A redemption date is July 1, 2007; the Series 1998-D redemption date is July 1, 2008; and the Series 1999-C redemption date is January 1, 2010.

As of June 30, 2006, the scheduled balances outstanding for the following bonds which are considered defeased include:

	(in thousands)
1969 Series	$ 16,080
1971 Series	40,685
1973 Series	47,355
1982 Series	35,105
1997-A Series	112,390
1998-D Series	19,730
1999-C Series	97,540
Total defeased bonds	$ 368,885

Special Facility Bonds: To provide for the construction and improvement of various facilities at Logan Airport, including a hotel and conference center, a fuel storage and distribution system, terminal redevelopment and improvement, and maintenance facilities, the Authority has issued and has outstanding nine series of special facilities revenue bonds. The Authority's special facilities revenue bonds are all special limited obligations of the Authority and are payable solely from and secured solely by certain revenues to be received by a separate trustee, pursuant to agreements between the Authority and the tenants of the facilities constructed with the proceeds of such bonds and, in certain cases, guaranty agreements from the lessee/obligor.

As a result of United Air Lines filing for bankruptcy protection in December 2002, the trustee for the Authority's $80,500,000 Special Facilities Revenue Bonds (United Air Lines, Inc. Project), Series 1999-A (the "United Bonds") issued notice that the United Bonds were in default. Once the United Airlines Plan of Reorganization was approved by the bankruptcy court on February 1, 2006, this debt was discharged, along with other unsecured debt, and the bond holders are entitled to distribution along with other unsecured creditors.

On July 1, 2006 Delta Airlines reduced the number of gates that it occupied in Terminal A according to a Term Sheet dated June 2, 2006 and signed by Delta, the Authority and Ambac. To date during fiscal year 2007, Delta has paid the specified rental rate for the terminal space it occupies and has paid all landing fees that are due. Whether Delta Airlines assumes or rejects the Terminal A lease, the Authority is under no obligation to assume any liability for the Terminal A Special Facility bonds or to direct revenue, other than a portion of the Terminal A airline revenue, to service the debt.

The Authority's special facilities revenue bonds do not constitute a debt or pledge of the faith and credit of the Authority or the Commonwealth or any subdivision thereof and, accordingly, have not been reflected in the accompanying financial statements.

F. Funded Debt, continued

At June 30, 2006, the aggregate principal amount of the Authority's special facilities revenue bonds outstanding was approximately $715.5 million.

Commercial Paper Notes: On March 10, 2005, the Authority amended its commercial paper program and increased the maximum principal amount outstanding at any time to an aggregate principal amount not to exceed $139 million, and entered into an amendment to the Letter of Credit Agreement with WestLB AG, acting through its New York Branch, to extend the term to December 15, 2015. The sum of the non-AMT (Alternative Minimum Tax) program (the "2003-A Series") and the AMT program (the "2003-B Series") will not exceed the lesser of 10% of the outstanding principal on the Authority's outstanding bonds or $139 million.

As of June 30, 2006, $20 million of 2003-A Series and $69 million of 2003-B Series were outstanding. As of June 30, 2005, $20 million of the 2003-A Series and $50 million of the 2003-B Series were outstanding. For the fiscal year from July 1, 2005 though June 30, 2006, the blended interest rate on Series 2003-A was 2.957% and Series 2003-B was 3.043%.

The existing commercial paper program has been issued under the terms of the 1978 Trust Agreement and is backed by the proceeds of the Improvement and Extension ("I&E") Fund or anticipated bond funds. Currently, the proceeds of the commercial paper program are being used to fund PFC eligible projects. Therefore, the Authority expects that, when it is time to redeem the notes, PFC revenues will be the source of the cash to be transferred to the I & E Fund to pay such redemptions.

Commercial paper is defined as notes with a term of one to two hundred and seventy days. These notes are "rolled over" (or reissued) until they are repaid. The Authority currently expects to roll over all of the existing commercial paper through fiscal year 2009. In fiscal year 2006 the Authority rolled all outstanding paper and did not make any principal payments related to commercial paper.

The Authority's Commercial paper notes as of June 30, 2006 and 2005 were as follows:

(in thousands)	2006	2005
Commercial paper notes, beginning of year	$ 70,000	$ 50,000
New commercial paper issued	19,000	20,000
Principal paid on commercial paper	-	-
Commercial paper notes, end of year	$ 89,000	$ 70,000

G. Interest Rate Swap

On July 1, 2002, the Authority entered into a pay-variable, receive-fixed interest rate swap with a term of ten years to refund synthetically $56 million of the Authority's Revenue Bonds, Series 1999-D and $44 million of its Revenue Bonds, Series 1998-E. The objective of the swap was to lower the interest rates paid on the 1999-D Bonds and 1998-E Bonds. The notional value of the swap was $100 million. On June 5, 2006 the Authority terminated the swap for a payment from

G. Interest Rate Swap, continued

Citigroup of $815,000 that included $98,021 of accrued interest and $716,979 of termination value. The termination was calculated at a rate of 3.895%. Over the life of the swap from July 1, 2002 through June 5, 2006 Massport was paid $9,025,652 by Citigroup.

Under the terms of the swap, the Authority paid a variable rate equivalent to the Bond Market Association ("BMA") Municipal Swap Index, which was 3.22 percent at June 5, 2006, and received fixed-rate payments at 4.05 percent. The Authority had pledged the Improvement and Extension Fund as security for its obligations under the swap agreement, specially designated a "swap account" within the Improvement and Extension Fund to be maintained at a level of $500,000 and agreed to maintain a balance of "available moneys" within the Improvement and Extension Fund of not less than $20 million.

Fair value. As of June 5, 2006 and June 30, 2005, the swap had a positive fair value of $716,979 and $4,529,684, respectively. The fair market value of the swap on June 5, 2006 was calculated by Citigroup per the termination process stipulated by the swap agreement. The fair value of the swap on June 30, 2005 was calculated by PFM Asset Management using the par-value method: the fixed rate on the swap was compared with the current fixed rates that could be achieved in the marketplace should the swap be unwound. The fixed-rate component was valued by discounting the fixed-rate cash flows using the current yield to maturity of a comparable bond. The variable-rate component was assumed to be at par value because the interest rate resets to the market rate at every reset date. The fair value was then calculated by subtracting the established market value of the fixed component from the established market value of the variable component (the par value of the bond).

Credit risk. The swap's fair value represented the Authority's credit exposure to the counterparty as of June 5, 2006 and June 30, 2005. If the counterparty to this transaction had failed to perform according to the terms of the swap contract, the Authority faced a maximum possible loss equivalent to the swap's fair value of $4,529,684 and $3,678,891 as of June 30, 2005, 2004 respectively. As of June 5, 2006, the swap counterparty, Citigroup Financial Products (with a guarantee from Citigroup Global Markets Holdings Inc.) (collectively, "Citigroup") was rated Aa1 by Moody's, AA by S&P and AA+ by Fitch. To mitigate credit risk, if the counterparty's credit rating had fallen below A3 by Moody's or A- by S&P, the swap would have been assigned to a third party reasonably acceptable to the Authority or the swap would have been terminated.

Interest rate risk. The swap increased the Authority's exposure to interest rate risk. As the BMA Municipal Swap Index increased, the Authority's net payment on the swap increased or net receipts decreased.

Termination risk. The Authority or the counterparty had the option of terminating the swap if the other party failed to perform under the terms of the contract. Citigroup could have terminated the swap (a) if the Authority's senior general obligation revenue debt had been rated less than A3 as determined by Moody's or A- by S&P, (b) if as of the last day of any calendar month, the available moneys on deposit in the Improvement and Extension Fund had been less than $20 million, or (c) if the amount on deposit in the Swap Account of the Improvement and Extension Fund thirty days prior to any payment date had been less than $500,000. If at the time of termination the swap had a negative fair value, the Authority would have been liable to the counterparty for that payment.

G. Interest Rate Swap, continued

In fiscal year 2006, the Authority received four quarterly payments from Citigroup totaling $1,305,402 of which $731,025 was applied to the debt service for the 1999-D Bonds and $574,377 was applied to the debt service for the 1998-E Bonds.

Interest expense for fiscal year 2006 was reduced by the net amounts received under the interest rate swap agreement of $1,305,402 for the fiscal year 2006 and by $2,606,512 for fiscal year 2005.

H. Pension Costs

In July 1978, the Massachusetts legislature passed legislation which was enacted as Chapter 487 of the Massachusetts Acts of 1978 ("C.487"). This act provided for the establishment of the "Massachusetts Port Authority Employees' Retirement System," (the "Plan"). Prior to this enactment, Authority employees were members of the Massachusetts State Employees' Retirement System, and the funding of the pension liability was on a "pay as you go" method. Pursuant to C.487, the employees' rights and benefits under the state plan were transferred to the new system, and the Authority established a separate pension fund. The Plan was established to provide retirement benefits for substantially all employees of the Authority and incidental benefits for their surviving spouses, beneficiaries and contingent annuitants. The Plan is a contributory single employer defined benefit plan to which the Authority and its employees contribute such amounts as are necessary, on an actuarial basis, to provide assets sufficient to meet benefits to be paid to plan participants. The Plan issues a stand-alone financial report which can be obtained by writing to:

Massachusetts Port Authority Employees' Retirement System
One Harborside Drive, Suite 200S
East Boston, MA 02128-2909
http://www.massport.com/about/retir_public.htm

At January 1, 2006, the Plan's membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them:	514
Current members:	
Active	1,153
Inactive	73
Total	1,740

Benefits are paid by the Plan from net assets available for Plan benefits. Plan participants are entitled, at normal retirement date, to benefit payments based upon length of service and earnings levels. Vesting occurs after ten years of service. Optional payment methods may be elected, including the contingent annuitant method which provides for reduced payments during the life of the Plan participant and continued payments to the participant's beneficiary after the death of the participant.

H. Pension Costs, continued

The Authority's covered payroll for members of the Plan as of the most recent actuarial valuation dates was approximately $73.5 million as of January 1, 2006 and $71.0 million as of January 1, 2005. The actuarial cost method utilized to determine contributions for the year ended December 31, 2005 is the Frozen-Entry-Age Actuarial Cost Method Plan. The more significant actuarial assumptions underlying the actuarial computations for the Plan year ended December 31, 2005 are as follows:

Assumed rate of return on investments	-	7.75% per annum compounded annually
Nondisabled life mortality basis	-	The RP-2000 Mortality Table
Withdrawal prior to retirement	-	The rates shown at the following sample ages illustrate the withdrawal assumption

	Rate of Withdrawal	
Age	**Group 1 and 2**	**Group 4**
25	9.0%	1.8%
30	5.6	1.7
35	3.2	1.3
40	2.3	0.5
45	1.8	0.04
50	1.5	N/A
55	N/A	N/A

Salary escalation	-	5.0% per annum
Rate of Inflation	-	3.0% per annum
Rates of retirement	-	See table below

Group 1, 2 and 4 employees are assumed to retire at the following rates upon attainment of 10 years of service.

Age	Groups 1 and 2*	Group 4*
50	N/A	5%
51	N/A	5
52	N/A	5
53	N/A	5
54	N/A	5
55	9%	35
56	3	15
57	5	15
58	2	15
59	6	15
60	6	15
61	8	15
62	11	15
63	14	15
64	13	15
65	100	100

*Groups 1, 2 and 4 are assigned based on employee class.

H. Pension Costs, continued

Retirement benefits	-	Depending on age at retirement and "Group" classification, 0.1%-2.5% per year of service times highest three-year average salary.
Post retirement cost of living increases	-	3% per annum compounded annually on the first $12,000 of pension benefits.

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due and fund operating costs of the Plan. The Plan also amortizes the unfunded actuarial accrued liabilities in level amounts at 7.75% over a period of 20 years on a closed basis. The actuarial value of assets is determined using fair values (adjusted by payables and receivables) adjusted to phase in investment gains or losses above or below the expected rate of investment return. A four-year rolling period is used.

Total contributions to the Plan were $10,735,317 for the plan year ended December 31, 2005. This includes employee contributions of $7,005,825, which are based upon a percentage of employee base pay (5% for employees hired before January 1, 1975; 7% for employees hired between January 1, 1975 and January 1, 1984; 8% for employees hired after January 1, 1984 but prior to July 1, 1996; and 9% for employees hired after July 1, 1996; and, effective January 1, 1998, an additional 2% of base pay over $30,000 for those employees hired after December 31, 1978), and the Authority's contribution of $3,729,492 to the Plan for the year ended December 31, 2005. Authority contributions are determined each year in accordance with an annual actuarial valuation performed for the Plan's fiscal year beginning January 1.

As presented in the following table, the Frozen Entry Age Actuarial Method for calculating the schedule of funding progress is the methodology required by the Plan under its charter.

Schedule of Funding Progress (in thousands):

	(a)	**(b)**	**(b-a)**	**(a/b)**	**(c)**	**(b-a)/c**
Actuarial valuation date	**Actuarial value of assets**	**Actuarial accrued liability ("AAL")**	**Unfunded actuarial accrued liability ("UAAL")**	**Funded ratio**	**Covered payroll**	**UAAL as a percent of covered payroll**
1/1/05	$304,427	$293,550	($10,877)	103.7%	$71,030	(15.3%)
1/1/04	293,743	282,683	(11,060)	103.9%	$64,522	(17.1%)
1/1/03	275,618	261,594	(14,024)	105.4%	64,945	(21.6%)
1/1/02	293,120	294,457	1,337	99.5%	63,604	2.1%
1/1/01	285,609	285,209	(400)	100.1%	65,403	(0.6%)

H. Pension Costs, continued

Analysis of the dollar amounts of actuarial value of assets, AAL and UAAL, in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the AAL provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Public Employee Retirement System (PERS). Trends in assets in excess of AAL and annual covered payroll are both affected by inflation. Expressing the assets in excess of AAL as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due.

Schedule of Employer Contributions
(in thousands)

Calendar Year ended December 31	**Annual required employer contributions (ARC)**	**Employer contributions as a percent of ARC**
2005	$3,729	100%
2004	$2,150	100%
2003	$1,842	100%
2002	-	0%
2001	-	0%

The Plan's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Investment Valuation
Plan investments are reported at fair value. Securities traded on a national or international securities exchange are valued at the last reported sales price on the last business day of the plan year; investments traded on a national securities exchange for which no sale was reported on that date and investments in common and preferred stocks traded in over-the-counter markets are valued at the mean of the last reported bid and asked prices, or the last reported bid price. Mutual funds and commingled funds, including real estate, are valued based on net asset value at year-end. Limited partnerships are valued using the valuations reported by the general partner.

Certain operating expenses incurred by the Plan are funded by the Authority through additional employer contributions. Investment management fees, consulting fees and custodial fees for the Plan are reflected as deductions to investment income.

I. Contingent Liabilities and Commitments

Contractual Obligations for Construction
Contractual obligations for construction were approximately $262,694,000 at June 30, 2006 and $438,289,000 at June 30, 2005.

I. Contingent Liabilities and Commitments, continued

Guarantee and Intercreditor Agreement

During fiscal 2002, the Authority entered into a Guarantee and Intercreditor Agreement (the "Intercreditor Agreement") with The Bank of New York (the "Bank") in connection with an unrelated limited liability company's bonds. The bonds were issued in fiscal year 2000 to provide financing to the limited liability company (the "Company"), which is a tenant of the Authority, to fund construction of a multi-tenant seafood processing and distribution center (the "Facility") located at the North Jetty in the Marine Industrial Park in Boston, Massachusetts on which the Authority has a long-term lease from the City of Boston. The Facility was substantially completed and fully leased at June 30, 2002 and remained fully leased as of June 30, 2006. The Intercreditor Agreement represents a guarantee by the Authority to pay the Bank up to $10 million in the event the Company does not meet its obligations to pay the guaranteed obligations, as defined. The Authority and the Company have also entered into an Amended and Restated Reimbursement Agreement (the "Reimbursement Agreement") pursuant to which the Authority has agreed to advance for the benefit of the Company up to $10 million to the Bank under the Intercreditor Agreement in the event the Company fails to repay drawings on the letter of credit issued by the Bank to support the bonds and up to $900,000 to others for certain additional costs, and the Company has agreed to repay such advances over a term of up to 15 years, with interest on the unpaid balance at 5% per annum. Such obligations of the Authority are payable solely from available moneys, as defined, in the Improvement and Extension Fund and cash collateral, if any, provided to the Bank under the Intercreditor Agreement.

As of June 30, 2006, the Authority had advanced on behalf of the Company, $896,786 of the $900,000 authorized, and received repayments of $486,000, which included principal and interest on the loan. In the opinion of the Authority's management, no advance pursuant to the Intercreditor Agreement is anticipated during the next twelve months and, no further advances pursuant to the Reimbursement Agreement are anticipated during the next twelve months.

Third Harbor Tunnel

The Massachusetts Highway Department ("MHD") undertook a depression of a portion of I-93 in downtown Boston ("Central Artery") and the extension of the eastern terminus of I-90 to the Airport by construction of a new tunnel under Boston Harbor (the "Ted Williams Tunnel"), (collectively, the "CA/T Project").

In March 1999, the Authority, MHD and the Massachusetts Turnpike Authority ("MTA") entered into a Roadway Transfer Agreement, which was supplemented and amended on October 27, 1999 and January 29, 2001, that provides for the acquisition by the Authority of certain identified segments of the CA/T Project located at Logan Airport following completion of construction of such segments, in exchange for installment payments by the Authority to the Commonwealth totaling an aggregate of $365 million. The Authority made payments totaling $315 million through June 30, 2006. The remaining payment of $50 million is subject to MTA's satisfactory completion of the aforementioned segments in accordance with the Roadway Transfer Agreement.

On July 13, 2006 a portion of the ceiling of the I-90 Connector tunnel collapsed, killing one person. This led to a closure of the I-90 Connector tunnel and to restricted access to and use of the westerly end of the Ted Williams Tunnel. By Labor Day, one lane of the east bound

I. Contingent Liabilities and Commitments, continued

connector had reopened, the Ted Williams Tunnel was open in each direction and a connection from the Southeast Expressway to the Ted Williams Tunnel was functioning. The portion of the I-90 Connector containing the ceiling that collapsed is not and never has been included in the list of CA/THT roadway segments that Massport is scheduled to purchase. Moreover, these closures did not have a material impact on the results of operations.

Seaport Bond Bill

The Seaport Bond Bill was enacted on February 14, 1996 and among other things, provides for funding improvements to the Massachusetts rail transportation network allowing rail shipment of double stack cargo from Allston Yards in Boston to points west, which is anticipated to encourage expanded container shipments through the Port of Boston. The Seaport Bond Bill requires that the Authority provide up to fifty percent (50%) of the cost of improvements to the rail line from Framingham to the Allston Yard in Boston permitting double stack shipments. Expenditure of funds will not occur until the execution of a Master Agreement, as defined by the statute, between the Commonwealth and the participating railroads. The Authority believes that the likelihood that any such Master Agreement will be executed and Authority funds committed for double stack improvements within the next fiscal year is remote.

Worcester Airport

On April 15, 1999, the Authority entered into a Memorandum of Understanding ("M.O.U.") with the City of Worcester, Massachusetts and the Worcester Airport Commission (the "City Parties"). The M.O.U. contemplates the takeover of the Worcester Regional Airport by the Authority in two separate phases. In compliance with Phase One, on January 15, 2000, the Authority assumed operating responsibility for Worcester Regional Airport pursuant to a separate Operating Agreement (the "OA"), which was amended in 2004.

The terms of the OA provide for the allocation of the net operating deficits for Worcester Regional Airport between the Authority and the City of Worcester, with the Authority assuming 100% of those net operating deficits during fiscal years 2005 and 2004. The OA was amended in 2004 to extend the term of the OA through June 30, 2007, and to allocate to the Authority responsibility for the following percentages of Worcester Regional Airport's operating deficit: for fiscal year 2005, 100%; for fiscal year 2006, 85%; and for fiscal year 2007, 68%. The Authority's portion of Worcester Regional Airport's actual deficits for fiscal year 2006 is $1,523,859 and budget deficits for fiscal year 2007 is projected to be $1,415,710. The entire projected loss for fiscal years 2005 – 2007 was accrued in fiscal year 2004. The actual deficits will be adjusted each year.

Phase Two, anticipated by the M.O.U. to take place prior to the termination date of the OA, may involve the transfer of title of Worcester Regional Airport from the City Parties to the Authority. However, legislation would be required to effectuate such transfer. The Authority's goal is to develop a more effective and efficient regional airport network by increasing utilization of Worcester Regional Airport in conjunction with ongoing operation of its other airport facilities.

J. Payments in Lieu of Taxes

The Enabling Act authorizes and directs the Authority, subject to certain standards and limitations, to enter into agreements (collectively, the “PILOT Agreements”) to make annual payments in lieu of taxes to Boston, Chelsea, and Winthrop.

In fiscal year 1992, the Authority's obligation to the City of Chelsea for annual in-lieu-of-tax payments through 2012 was satisfied by a payment of $5,000,000. In response to increased traffic on the Bridge and the increased impact of the Airport on Chelsea since 1992, however, the Authority and Chelsea amended their PILOT Agreement in fiscal year 1999 to provide for annual payments by the Authority to Chelsea of $500,000 for each of the fiscal years 1999 through 2003, inclusive. In fiscal year 2006, this amendment was extended through fiscal year 2010 with annual payments increasing to $600,000 commencing in fiscal year 2006.

In fiscal year 2005, the Authority and the Town of Winthrop were negotiating an extension to the original payment-in-lieu-of-tax agreement (the “Original Winthrop PILOT Agreement”) which had expired in June 30, 2004. In fiscal year 2006, the Authority and the Town of Winthrop entered into an Amended and Restated Payment-In-Lieu-Of-Taxes Agreement (the “Amended Winthrop PILOT Agreement”) which extended the base in-lieu-of-tax payments through fiscal year 2025. The Amended Winthrop PILOT Agreement provides for the Authority to pay 1) a one-time payment of $551,000 representing the sum that would have been paid to the Town of Winthrop in fiscal year 2005 had the term of the Original Winthrop PILOT Agreement been extended for fiscal year 2005 and 2) an annual payment of $900,000, provided that the annual payment will be adjusted in fiscal year 2016 through 2025 if the average annual percentage change in the consumer price index in fiscal year 2006 through 2015 is less than 2% or more than 8%.

In fiscal year 2006, the Authority and the City of Boston agreed to amend the existing payment-in-lieu-of-taxes agreement with the City of Boston, (the “Boston PILOT Agreement”) effective July 1, 2005. Pursuant to the amended Boston PILOT Agreement (the “Amended Boston PILOT Agreement”), the term of the Boston PILOT Agreement was extended to June 30, 2015 subject to mutual rights to terminate the Amended PILOT Agreement each year after July 1, 2010. In fiscal year 2006, pursuant to the Amended Boston PILOT Agreement, the Authority paid to the City of Boston 1) a one-time payment of $3,500,000 representing the sum withheld by the Authority from the City of Boston from the PILOT payments due with respect to fiscal year 2002 due to the Authority’s financial recovery plan as a result of the events of September 11, 2001 and 2) an annual base amount (the “Base Amount”) of $14,000,000. After July 1, 2007, the Amended Boston PILOT Agreement provides that the Authority shall make the following fiscal year payments: 1) the Base Amount which, commencing in fiscal year 2007, increases annually by the annual percentage change in the consumer price index, provided that such increase shall be no less than 2%, nor greater than 8%, per year, and 2) commencing with fiscal year 2007 for ten (10) years, an amount of $700,000 which shall not be increased or adjusted.

The Authority’s Enabling Act, the 1978 Trust Agreement and the PILOT Agreements provide that annual payments under the PILOT Agreements may not exceed the balance of revenues remaining after deposits to the payment of operating expenses, required deposits to the Interest and Sinking Fund and required deposits to the Maintenance Reserve Fund.

K. Litigation

The Authority is engaged in routine litigation as well as litigation involving the terrorist attacks of September 11, 2001.

Events of September 11, 2001

On September 11, 2001, terrorists hijacked American Airlines flight 11 and United Airlines flight 175 and flew them into the World Trade Center in New York, N.Y. The terrorist acts caused the deaths of approximately 3,000 persons, unknown numbers of personal injuries, and massive property damage. Both flights originated at Logan Airport.

In September 2001, Congress passed the Air Transportation Safety and System Stabilization Act of 2001, which provides, among other things, that victims who suffered physical injury or death as a result of the events of September 11, 2001 ("9/11") could file a claim with a newly created Victim Compensation Fund (the "Fund"). Those who sought such compensation waived the right to file a civil lawsuit. The Fund does not apply to claims for property damage, business interruption, or the like. Approximately 98% of claimants eligible for compensation from the Fund filed a claim with the Fund.

In November 2001, Congress passed the Aviation and Transportation Security Act ("ATSA"). The Act provides a limitation on liability of various entities, including airport sponsors such as the Authority, for the events of 9/11. Specifically, the liability of an airport sponsor for those events "shall not be in an amount greater than the limits of liability insurance coverage maintained by that . . . airport sponsor". The Authority has insurance in effect to cover these incidents in the amount of $500,000,000 per occurrence and consequently, under ATSA the Authority's liability, if any, would be limited to such amounts. To the Authority's knowledge, the Authority's insurer has received copies of all complaints and Notices of Claim and/or any other form of notification to the Authority by an individual claiming to have suffered a loss.

Furthermore, to the Authority's knowledge, its insurer has agreed to defend any such claims and has not reserved its rights to deny coverage with respect to any of those claims although the insurer has reserved its rights with respect to (i) the number of occurrences, (ii) indemnification of the Authority against any award of punitive damages, and (iii) the Authority's rights as a named additional insured under other policies of insurance, including policies of the Authority's tenants and licensees.

As of June 30, 2006, there were approximately twenty-nine (29) wrongful death lawsuits, two (2) personal injury lawsuits, nine (9) property damage lawsuits and four (4) cross claims against the Authority and other defendants. A number of other wrongful death lawsuits against the Authority and other defendants have been settled. These settlements have been achieved without any financial contribution from the Authority or its insurer though the settling plaintiffs have provided the Authority with a release.

The plaintiffs in the property damage lawsuits include, but are not limited to, the Port Authority of New York and New Jersey, owner of the World Trade Center complex (the "WTC"), World Trade Center Properties, LLC, the lessee of the WTC, and insurers for various businesses located in or around the WTC. The statute of limitations for any such lawsuits expired on September 11, 2004.

K. Litigation, continued

Absent the limitation of liability in ATSA, the amount of potential damages that could be awarded against the Authority if it were found liable in these lawsuits, based on the total amount of liability claimed, is an amount that would have a significant, materially adverse effect on the financial condition of the Authority. While the Authority cannot predict the outcome of any of these lawsuits or subsequent challenges, if any, to ATSA, it believes it has meritorious defenses to these actions and will continue to review and assess the various claims asserted.

Environmental Contamination
Historical contamination has also been discovered on various Authority properties located in South Boston. As the owner of the properties, the Authority is a "responsible party" under M.G.L. c.21E for costs of investigating and remediating the contamination at these sites. The full extent of the contamination and necessary remediation measures has not yet been determined; however, the costs could be material to the Authority's results of operations. In addition, the Authority has not yet determined whether and to what extent those costs may be recoverable from other parties responsible for the contamination.

Other Litigation
The Authority also is engaged in numerous matters of routine litigation. These matters include personal injury and property damage claims for which the Authority's liability is covered in whole or in part by insurance. Others include such matters as disputes with contractors, subcontractors, engineers and others arising out of construction and maintenance of its properties; disputes over leases and concessions; property, theft and damage claims arising from the Authority's operations, employment matters and workers compensation, as to which the Authority is self-insured. The Authority does not expect that these matters will require any amounts to be paid which, in the aggregate, will be material to the results of operations.

L. Leases

The Authority leases a major portion of its Aviation and Port Properties to various tenants. Most of these operating leases provide for periodic adjustments to rental rates. In addition, certain of the lease agreements contain provisions for contingent payments based on a specified percentage of the tenant's gross revenue. Rental income including contingent payments received under these provisions was approximately $208,669,000 and $189,654,000 for fiscal years 2006 and 2005, respectively.

Minimum future rental incomes, excluding contingent rentals, from noncancelable operating leases as of June 30, 2006 are:

L. Leases, continued

Fiscal Year	Amount (in thousands)
2007	$ 71,265
2008	64,921
2009	57,740
2010	46,614
2011	18,987
2012 - 2016	69,802
2017 - 2021	62,268
2022 - 2026	57,668
2027 - 2031	60,262
2032 - 2036	67,810
2037 - 2041	65,928

Continued Fiscal Year	Amount (in thousands)
2042 - 2046	$ 50,187
2047 - 2051	47,241
2052 - 2056	47,354
2057 - 2061	54,521
2062 - 2066	62,829
2067 - 2071	72,461
2072 - 2076	83,627
2077 - 2081	96,572
2082 - 2086	111,578
2087 - 2091	128,974
2092 - 2096	149,141
2097 - 2099	33,152
Total	$ 1,580,902

The Authority has also entered into operating leases as the lessee. The following is a schedule by years of future minimum rental payments under noncancelable operating leases as of June 30, 2006:

Fiscal Year	Amount (in thousands)
2007	$ 24,076
2008	21,959
2009	13,096
2010	10,460
2011	8,600
2012 - 2016	26,943
2017 - 2019	2,662
Total	$ 107,796

Rent expense was $25,638,000 and $24,509,000 for fiscal years 2006 and 2005, respectively.

M. Interagency Agreements

Investment in Joint Venture

In May 1996, the Authority entered into an interagency agreement with the MHD and Massachusetts Bay Transportation Authority (“MBTA”) for the construction of a Regional Transportation Center (“RTC”) in Woburn, Massachusetts (the “Interagency Agreement”). Under the terms of the Interagency Agreement, the Authority has paid one third of the cost of acquiring the site and constructing the RTC, and will share in a like proportion in the profits and losses of the RTC.

M. Interagency Agreements, continued

The RTC opened in May 2001. For fiscal years 2006 and 2005, the RTC's operating losses were $283,307 and $292,500, respectively, and depreciation expense was $318,554 in both fiscal years. The Authority's proportionate share of RTC's operating losses and depreciation for fiscal years 2006 and 2005 is $200,621 and $203,685, respectively, which is included in "Other expenses" under "Nonoperating revenues (expenses)". Separate financial statements from the joint venture may be obtained by writing to:

RTC Joint Venture
c/o Massachusetts Port Authority
One Harborside Drive
East Boston, MA 02108
Attn: General Business Manager

Logan Airport Silver Line Transportation Agreement

The Authority entered into an agreement with the Massachusetts Bay Transportation Authority ("MBTA") to provide public transportation between South Station in Boston, Massachusetts and Logan Airport along a route called the Silver Line. Pursuant to this agreement the Authority has purchased and accepted delivery of eight buses for a cost not-to-exceed $13,300,000.

In addition, the MBTA and the Authority have entered into a ten-year agreement ending on December 30, 2015. Under this agreement, the MBTA will operate and maintain the Authority's Silver Line buses for a cost of $2 million per year, paid in equal monthly installments. The MBTA will remit to the Authority a per passenger amount for each passenger loading at Logan Airport. Also, under an August 2006 amendment to this agreement, the MBTA will reimburse the Authority approximately $258,000 for the MBTA's share of infrastructure improvements at Logan Airport related to installation of the MBTA's automated fare collection equipment.

N. Self Insurance

The Authority, as mandated by the 1978 Trust Agreement, maintains a self insurance account within the Operating Fund. As of June 30, 2006 and 2005, the self insurance account had assets of $41,314,000 and $41,570,000, respectively, available to pay future claims. The self insurance accruals are determined based on insurance claim history and actuarial estimates needed to pay prior and current-year claims. The overall accrual was approximately $5,973,000 and $6,566,000 as of June 30, 2006 and 2005, respectively, and is included as a component of accrued expenses in the accompanying financial statements. Changes in the accrued liability accounts in fiscal year 2006 and 2005 were as follows:

(in thousands)

Fiscal Year	Beginning Liability	Claims and Changes in Estimates	Claim Payments	Ending Liability
2005	$ 13,722	(2,086)	(5,070)	$ 6,566
2006	$ 6,566	3,507	(4,100)	$ 5,973

Massachusetts Port Authority
Supplemental Schedule of Combining Balance Sheet
June 30, 2006
(In Thousands)

	Authority Operations	PFC Program	Combined
ASSETS			
CURRENT ASSETS			
Assets whose use is unlimited:			
Cash and cash equivalents	$ 40,642	$ -	$ 40,642
Investments	68,535	-	68,535
Assets whose use is limited:			
Cash and cash equivalents	66,867	3,698	70,565
Investments	259,977	26,909	286,886
Accounts receivable – net of allowance for doubtful accounts of $13,754 and $11,470 as of June 30, 2006 and 2005, respectively	29,287	3,554	32,841
Accounts receivable-grants	23,477	-	23,477
Prepaid expenses and other assets	4,211	479	4,690
Total current assets	492,996	34,640	527,636
NONCURRENT ASSETS			
Assets whose use is unlimited:			
Investments	11,707	-	11,707
Assets whose use is limited:			
Investments	125,685	26,884	152,569
Prepaid expenses and other assets	24,009	1,747	25,756
Investment in joint venture	3,061	-	3,061
Intangible assets, net	38,551	-	38,551
Capital Assets			
Completed facilities	2,788,094	661,367	3,449,461
Less accumulated depreciation	(1,063,508)	(107,784)	(1,171,292)
	1,724,586	553,583	2,278,169
Construction in progress	181,488	4,397	185,885
Capital assets, net	1,906,074	557,980	2,464,054
Total noncurrent assets	2,109,087	586,611	2,695,698
TOTAL ASSETS	$ 2,602,083	$ 621,251	$ 3,223,334

(Continued on next page)

Massachusetts Port Authority
Supplemental Schedule of Combining Balance Sheet, Continued
June 30, 2006
(In Thousands)

	Authority Operations	PFC Program	Combined
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	$ 64,512	$ 8,755	$ 73,267
Compensated absences	1,144	-	1,144
Retainage	10,362	-	10,362
Current maturities of funded debt	42,114	11,092	53,206
Commercial paper notes	-	89,000	89,000
Accrued interest payable	31,822	5,300	37,122
Deferred income	4,680	-	4,680
Total current liabilities	154,634	114,147	268,781
NON-CURRENT LIABILITIES			
Accrued expenses	5,450	-	5,450
Compensated absences	21,740	-	21,740
Retainage	3,718	989	4,707
Funded debt	1,327,029	191,384	1,518,413
Deferred income	12,723	-	12,723
Total noncurrent liabilities	1,370,660	192,373	1,563,033
Total liabilities	1,525,294	306,520	1,831,814
NET ASSETS			
Invested in capital assets, net of related debt	547,752	266,428	814,180
Restricted:			
Bond funds	163,210	-	163,210
Project funds	183,725	-	183,725
Passenger facility charges	-	48,303	48,303
Other purposes	100,736	-	100,736
Total restricted	447,671	48,303	495,974
Unrestricted	81,366	-	81,366
Total net assets	1,076,789	314,731	1,391,520
TOTAL LIABILITIES AND NET ASSETS	$ 2,602,083	$ 621,251	$ 3,223,334

Massachusetts Port Authority
Supplemental Schedule of Combining Statements of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2006
(In Thousands)

	Authority Operations	PFC Program	Combined
Operating revenues:			
Logan Airport			
Fees	$ 190,757	$ -	$ 190,757
Rentals	137,666	-	137,666
Concessions	51,948	-	51,948
Other	15,517	-	15,517
	395,888	-	395,888
Hanscom			
Fees	2,626	-	2,626
Rentals	2,890	-	2,890
Concessions	1,456	-	1,456
Other	191	-	191
	7,163	-	7,163
Bridge			
Tolls	28,008	-	28,008
Concessions	192	-	192
Other	61	-	61
	28,261	-	28,261
Maritime Operation			
Fees	44,186	-	44,186
Rentals	2,192	-	2,192
Concessions	80	-	80
Other	136	-	136
	46,594	-	46,594
Maritime Real Estate			
Fees	3,146	-	3,146
Rentals	12,243	-	12,243
Concessions	2	-	2
Other	847	-	847
	16,238	-	16,238
Operating grants	3,490	-	3,490
Total operating revenues	497,634	-	497,634
Operating expenses:			
Operations and maintenance	236,359	-	236,359
Administration	46,653	-	46,653
Insurance	6,632	-	6,632
Pension	3,715	-	3,715
Payments in lieu of taxes	15,771	-	15,771
Provision for uncollectible accounts	2,609	-	2,609
Depreciation and amortization	113,507	28,564	142,071
Total operating expenses	425,246	28,564	453,810
Operating income	72,388	(28,564)	43,824

(Continued on next page)

Massachusetts Port Authority
Supplemental Schedule of Combining Statements of Revenues, Expenses and Changes in Net Assets, Continued
For the Year Ended June 30, 2006
(In Thousands)

	Authority Operations	PFC Program	Combined
Nonoperating revenues (expenses):			
Passenger facility charges	-	48,324	48,324
Investment income	17,912	2,736	20,648
Net change in the fair value of investments	(2,869)	(1)	(2,870)
Other revenues	351	-	351
Settlement of Claims	438	-	438
Other expenses	(2,766)	(14)	(2,780)
Gain on sale of equipment	102	-	102
Interest expense	(56,078)	(13,523)	(69,601)
Total nonoperating revenue	(42,910)	37,522	(5,388)
Income before capital grant revenue	29,478	8,958	38,436
Capital grant revenue	36,209	-	36,209
Increase in net assets	65,687	8,958	74,645
Net assets, beginning of year	1,011,102	305,773	1,316,875
Net assets, end of year	$ 1,076,789	$ 314,731	$ 1,391,520

SH&E International Air Transport Consultancy

BOSTON LOGAN INTERNATIONAL AIRPORT MARKET ANALYSIS

Prepared for:

Massachusetts Port Authority

Prepared by:

SH&E, Inc.

May 17, 2007

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SH&E International Air Transport Consultancy

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May 17, 2007

Massachusetts Port Authority
One Harborside Drive, Suite 200S
East Boston, MA 02128-2909

Re: Boston Logan International Airport
Market Analysis

Dear Members of the Authority:

This report sets forth a market analysis of the historical and projected economic activity in the region served by Logan International Airport ("the Airport"), current and historical aviation trends, and a review of the Airport's existing long range aviation forecasts. SH&E consents to the inclusion of this report as Appendix B to the Preliminary Official Statement, dated May 17, 2007, for Massachusetts Port Authority Revenue Bonds, Series 2007-A and Revenue Refunding Bonds Series 2007-C, and also Massachusetts Port Authority PFC Revenue Bonds, Series 2007-B and PFC Revenue Refunding Bonds Series 2007-D.

This study includes an analysis of the underlying economic basis for air travel demand at Logan Airport and a review of current and long-term traffic and air service trends at the Airport. In this report, SH&E also presents an overview of the current state of the U.S. aviation industry and the potential impact of disruption in service should a carrier operating at the Airport cease operation. Finally, in this report, SH&E provides a review and opinion of the Massachusetts Port Authority's aviation activity projections for Logan Airport.

The analysis used in this report is consistent with industry practices for similar studies in connection with airport bond issuance. SH&E has relied on various published economic and aviation statistics, forecasts, and information, in addition to statistics provided directly by the Massachusetts Port Authority. SH&E believes that these sources are reliable, however SH&E's opinion could vary materially should some of these sources prove to be inaccurate. SH&E's opinions are based upon historical trends and expectations that it believes are reasonable. Some of the underlying assumptions, which are detailed explicitly or implicitly in this report, may or may not materialize because of unanticipated events or circumstances. SH&E's opinions could, and would, vary materially, should any key assumption prove to be inaccurate.

Sincerely,

SH&E, Inc.

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1 Introduction and Key Findings

1.1 Introduction

The Massachusetts Port Authority ("Massport") retained Simat, Helliesen & Eichner, Inc. ("SH&E") to perform a market analysis of the Boston Logan International Airport ("Logan" or "Logan Airport" or the "Airport") in connection with the issuance by Massport of its Revenue Bonds, Series 2007-A and Revenue Refunding Bonds Series 2007-C, and also Massachusetts Port Authority PFC Revenue Bonds, Series 2007-B and PFC Revenue Refunding Bonds Series 2007-D (the "Bonds").

This study includes an analysis of the underlying economic basis for air travel demand at Logan Airport and a review of current and long-term traffic and air service trends at the Airport. In this market analysis, SH&E also presents an overview of the current state of the U.S. aviation industry and the potential implications for Logan. In addition, SH&E describes the potential impact of disruption in service should a carrier operating at the Airport cease operation, Massport's ability to regain and relet underutilized airport gates and presents its review and opinion of Massport's aviation projections for Logan Airport.

SH&E relied on information from a variety of published sources as the basis of this study, including data from the U.S. Department of Transportation ("DOT"), the Federal Aviation Administration ("FAA"), the Official Airline Guide ("OAG"), and industry information and surveys, as well as the financial records, airport planning documents and aviation activity records provided by Massport. As part of this study, SH&E did not evaluate, and does not offer an opinion on, the feasibility of the engineering, design plans, or costs of any of the projects being financed with the Bonds. Nor did SH&E engage in a legal review of purchase and sale documents, lease agreements, or engineering contracts.

SH&E's opinions are based upon historical trends and expectations that it believes are reasonable. Some of the underlying assumptions, which are detailed explicitly or implicitly elsewhere in this report, may or may not materialize because of unanticipated events or circumstances. SH&E's opinions could, and would, vary materially, should any key assumption prove to be inaccurate.

The opinions expressed herein are not given as an inducement or endorsement for any financial transaction. This report reflects SH&E's expert opinion and best

judgment based on the information available to it at the time of its preparation. SH&E does not have, and does not anticipate having, any financial interest in this transaction.

1.2 KEY FINDINGS

1.2.1 Logan Airport Strengths

- Logan serves the 11th largest domestic origin-destination ("O&D") air travel market in the U.S., with a domestic O&D passenger base of 20.4 million.
- The Logan service area is one of the strongest O&D markets in the country. In 2006, nine out of ten Airport passengers were O&D passengers. Logan is the principal airport for the core Boston metropolitan area and the principal airport for New England's domestic long haul and international services.
- Logan has become the Low Cost Carriers ("LCCs") airport for New England. Over the past three years, LCCs have grown rapidly and now account for more than 25 percent of the total domestic seats at the Airport, close to the national average.
- In 2006, Logan experienced one of the largest increases in yield compared to similarly sized markets. Its combination of passenger volumes and high yields makes the Airport one of the largest non-connecting hub U.S. airports in terms of total market revenue.
- Because of its geographic location in the Northeast and its large O&D base, Logan is a highly contested market and is not dominated by any single airline. As of April 2007, Delta Air Lines, the leading domestic service provider at Logan, and its regional affiliates, accounted for only 19 percent of the Airport's domestic scheduled seat capacity.

1.2.2 Boston Market Fundamentals

- Boston was the 5th most populated metro area in the nation in 2006[1],
- Boston is a high-income area. In 2006, the average per capita income for the Boston metro area was 32 percent higher than the national average.

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[1] Source:Demographia, a Wendell Cox Consultancy (www.Demographia.com). The metropolitan area includes Boston-Worcester-Manchester, N.H.

- The Boston area is forecasted to maintain and increase its wealth advantage. Projections for the region indicate that the future average per capita income for the Boston area will be 37.0 percent greater than the national average by 2020.
- The region has a well-diversified economic base that is travel intensive. Leading industries include high technology, business services, financial services, higher education, and tourism.

1.2.3 Aviation Activity and Service Trends

- Logan experienced one of the largest traffic losses of any large hub airports in the U.S. after September 11th, 2001 ("9/11"). However, traffic has rebounded strongly, and in calendar year ("CY") 2007 is expected to exceed CY 2000 passenger levels for the first time, reaching record passenger activity.
- Passenger traffic grew by 14.6 percent in CY2004, 3.5 percent in CY 2005, and 2.4 percent in CY 2006. Despite slowing rates of growth during the past two years, Logan has outperformed the U.S. airport industry.
- Over a much broader time horizon, Logan passengers have more than doubled over the past three decades. Despite periodic declines resulting from economic downturns, external shocks, and short-term service disruptions, passenger traffic grew at an average annual rate of 3.0 percent from CY 1970 to CY 2000.
- The widespread introduction of regional jets and increasing load factors over the past three years have resulted in a rapid increase in the number of passengers per operation. During the 1990's Logan averaged between 55 and 60 passengers per operation. In CY 2006, this average reached almost 74 passengers per operation.
- As a consequence of larger numbers of passengers per operation, total aircraft operations at Logan have remained relatively constant over the past three years, despite a 20.6% increase in total passengers. Aircraft operations at the Airport are 18.2% below CY 2000 levels.
- Logan Airport is the 6th largest gateway for transatlantic traffic, and has a higher reliance on international passenger traffic than all non-hub U.S. airports, except one. Given the pending "Open Skies" air service agreement with the European Union, the Airport is likely to benefit from this liberalization.

1.2.4 Impact of Airline Industry Restructuring at Logan

- One airline currently at Logan Airport (Northwest) is operating under Chapter 11 bankruptcy protection. Other airlines, most notably Delta Air Lines, United Air Lines and US Airways have reorganized and scaled back operations. Several airlines have ceased operations in the past two years; however, at least one other, Virgin America, is attempting to launch service. The airline industry is in the process of fundamental change and it is possible that one or more of the airlines serving Boston could liquidate or consolidate.
- SH&E believes that, should one or more carriers currently operating at Boston cease operations, Logan is at a relatively low risk of losing passenger traffic, beyond some inevitable short-term disruption, because of the underlying strengths of the Boston market (large local O&D passenger base, above average income levels, travel intensive economic base, attractiveness as a destination market and rise of LCC service).

1.2.5 Logan Airport Gate Utilization

- Massport has various tools at its disposal to ensure that gates will not be underutilized, should existing leaseholders reduce their operations at Logan. These include an Airport-wide Preferential Gate Use Policy that applies to all gates, the use of short-term leases, and innovative recapture and sublet provisions that have been incorporated into long-term facility leases.
- Long-term leases with American, Delta, US Airways, and JetBlue contain recapture provisions that allow Massport to take control of underutilized gates and sublet them to other carriers if an airline's average gate utilization falls below the Airport standard. Leases with Delta and US Airways also contain provisions that limit the number of gates each may sublet, as well as provisions that allow Massport to require them to handle or sublet gates to new entrant airlines, which gives Massport additional control over gate utilization.
- The renegotiation of Delta Air Lines' Terminal A lease demonstrates the effectiveness of Massport gate control policies. Massport took back six contact gates and three regional jet aircraft parking positions from Delta in March of 2007, and now is in the process of reletting those gates. Massport has announced that it believes it will relet most, if not all, of these gates within 6 months.

1.2.6 Massport Activity Forecasts for Logan Airport

- Massport has adopted two forecasts for planning purposes:
  - A Financial forecast that is used to project future revenues and operating expenses; and
  - A Planning forecast that is used to anticipate facility needs and assess environmental impacts.
- Over the past three years, Logan Airport has outperformed the national average in terms of passenger growth. Logan has fully recovered from the events of 9/11 and the economic downturn which followed. Passenger traffic at Logan in 2006 is slightly ahead of what was achieved in 2000. Economic recovery within the region, reinstatement of service, expansion of low cost carrier service and reduction in airfares have all been contributing factors in the traffic growth over the last several years.
- SH&E expects that over the short-term the Airport will achieve average annual passenger growth consistent with its 2006 performance. Over the longer-term horizon, SH&E expects that passenger growth at Logan will moderate and will remain below the national average, reflecting Boston's maturity as an air travel market.
- In SH&E's opinion, Massport's Financial and Planning forecasts represent a reasonable range of future activity at the Airport. The Financial forecast, which assumes a long-term average growth rate of 1.5 percent, is conservative compared to the Airport's actual average annual growth of 1.9 percent from CY 1990 to CY 2000. The Planning forecast assumes 3.2 percent average annual passenger growth, which is higher than the Airport's most recent long-term growth; nevertheless the Planning forecast represents a reasonable high growth scenario. In SH&E's opinion, a reasonable forecast of future passenger activity at Logan would be bounded by Massport's Financial and Planning forecasts.

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2 OVERVIEW OF BOSTON LOGAN INTERNATIONAL AIRPORT

2.1 INTRODUCTION

Boston Logan Airport is the largest airport in New England and served over 27.0 million passengers in CY 2006. Logan is the principal airport for the greater Boston metropolitan area, as well as the international and long-haul gateway for much of New England

Over the past seven years the Airport has experienced market forces that have affected long established trends at the Airport. These trends have reflected larger, structural changes occurring industry wide in the U.S. aviation market; the impact of 9/11 and security issues, the rise of internet ticketing, airline financial distress and bankruptcy, and expansion of LCCs in the Northeast. All of these factors have influenced aviation activity at Logan Airport. However, the Airport also possesses its own unique dynamics that influence aviation activity and passenger growth in this market. Airport access, operational delays, constrained facilities, airport development, and regionalization have all affected how Logan has grown over the past decade, and how it will develop over the next decade. These factors, and their impact on Logan Airport's traffic development, will be considered in this section and throughout this study.

2.2 LOGAN AIRPORT SERVICE AREA

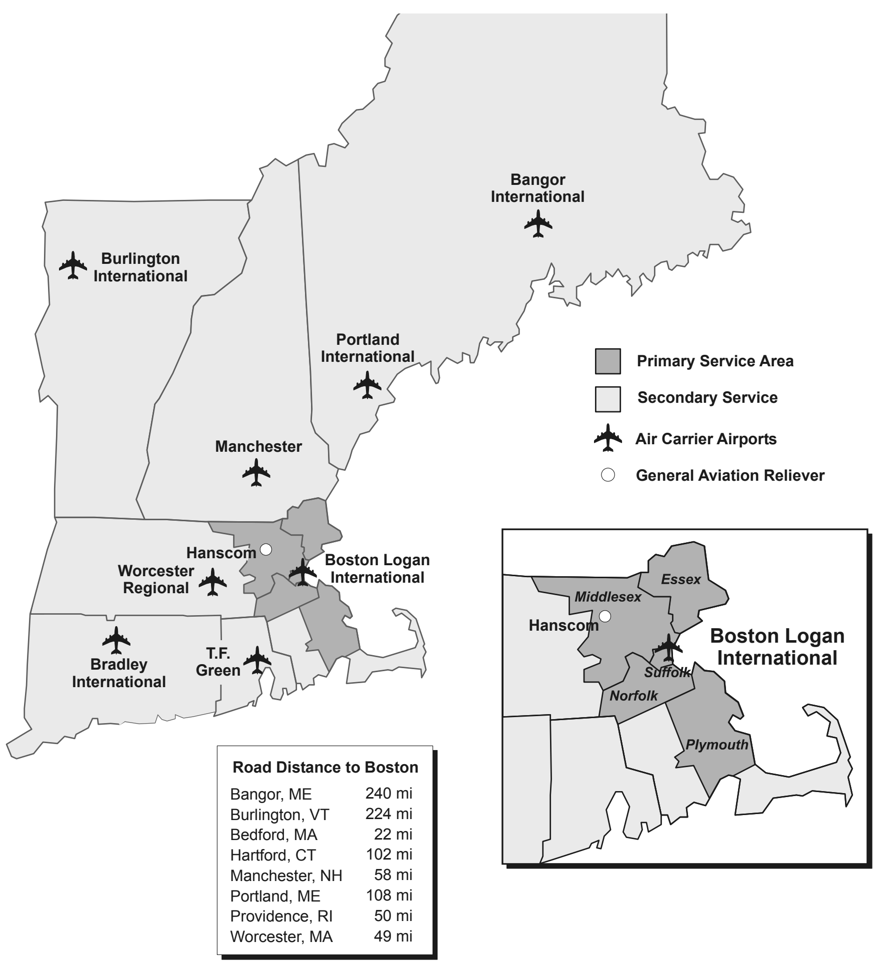
Logan Airport serves a number of roles in the local, regional New England and national air transportation networks:

1. Logan is the primary airport serving the Boston metropolitan area, and is the principal New England airport for long-haul domestic and international services.
2. Logan is a major U.S. international gateway airport for transatlantic services.
3. Logan serves as a regional connecting hub for small Northern New England markets and the Cape and Island markets.
4. Logan is an important air cargo center.

The service area of Logan is the geographic region from which the Airport draws its traffic. The quality of service at any airport, as well as the proximity and accessibility of other airports and the level of services offered generally determine airport service area boundaries. The "core" or primary service area generates the majority of an airport's passengers. The secondary service area extends outward from the core and may overlap with the service areas of other airports.

The core service area for Logan Airport is Suffolk, Middlesex, Norfolk, Essex and Plymouth counties in Massachusetts; referred to as the “Boston Service Area” (Exhibit 2-1). Logan is the principal commercial airport serving this region. While Hanscom Field (also owned and operated by Massport), is located within Logan’s primary service area, its principal function in the regional aviation system is as a general aviation reliever airport to Logan.

Exhibit 2-1: Boston Logan Airport, Primary and Secondary Service Areas



Source: SH&E

The Airport's secondary service area encompasses Massachusetts and the other New England states. Smaller regional commercial service airports such as T.F. Green/Providence Airport in Warwick, Rhode Island and Manchester Airport in Manchester, New Hampshire, have some overlap with Logan's core service area and, particularly during the late 1990's, drew a portion of traffic from Logan's core service area through the rapid expansion of low cost carrier flight activity at these airports.

Other commercial service airports in the secondary service area are Worcester Regional Airport[2] in Worcester, Massachusetts; Portland International Jetport in Portland, Maine; Bangor International Airport in Bangor, Maine; Bradley International Airport in Hartford, Connecticut; and Burlington International Airport in Burlington, Vermont.

2.3 AIRPORT TRAFFIC CHARACTERISTICS

Logan Airport is one of the largest airports in the U.S. For the year ended September 30, 2006, Logan was the 19th busiest U.S. airport in terms of total enplaned and deplaned passengers (Exhibit 2-2 below). Logan experienced limited growth in CY 2003 over CY 2002 predominantly due to the continuing effects of 9/11 and its aftershocks which caused a significant decline in passenger activity at the Airport for CY 2001 and CY 2002. Passenger growth activity picked up significantly in CY 2004 when the Airport's passenger enplanements grew by 14.7 percent over CY 2003 levels. Passenger growth at Logan has returned to historical growth levels (Logan Airport experienced Average Annual Passenger Growth of 2.8 percent between CY 1995 and CY 2000) with traffic growing 3.5 percent in CY 2005 and 2.4 percent in CY 2006 over prior years.

[2] Massport operates the Worcester Regional Airport under an agreement with the City of Worcester and the Worcester Airport Commission. Scheduled commercial service at Worcester Regional Airport was discontinued in February 2003, and the airport had no service during 2004 and 2005. From January 2006 through January 2007, Allegiant offered service at Worcester Regional Airport to Orlando's Sanford Airport on a limited frequency basis. The airport currently has no commercial service.

Exhibit 2-2: Top U.S. Airports Based on Total Enplaned and Deplaned Passengers (YE Sept 2006)

Rank	Airport	Total Passengers	% Change From 2004
1	Atlanta	85,907,423	2.8%
2	Chicago O'Hare	76,510,003	1.3%
3	Los Angeles	61,489,398	1.3%
4	Dallas/Ft. Worth	59,176,265	-0.4%
5	Las Vegas	43,989,982	6.0%
6	Denver	43,387,513	2.6%
7	New York - JFK	41,885,104	8.9%
8	Phoenix Shy Harbour	41,213,754	4.3%
9	Houston	39,684,640	8.7%
10	Minneapolis/St. Paul	37,604,373	2.4%
11	Detroit	36,389,294	3.2%
12	Orlando	34,128,048	8.4%
13	New York - EWR	33,999,990	3.3%
14	San Francisco	32,802,363	2.0%
15	Philadelphia	31,495,385	10.5%
16	Miami	31,008,453	2.8%
17	Seattle	29,289,026	1.7%
18	Charlotte	28,206,052	12.1%
19	**Boston**	**27,087,905**	**3.6%**
20	Washington Dulles	26,842,922	18.5%

Source: Airports Council International – North America, 2005

Logan Airport is principally an O&D airport, meaning that the majority of passengers originate from or are destined for the Boston Service Area. Because of the Airport's geographic location on the Northeast U.S. coast, no major airline has established a domestic connecting hub complex here. Approximately nine out of ten (87.7 percent) passengers using Logan are local O&D passengers. This is one of the highest local O&D shares of any major U.S. airport (see Exhibit 2-3). Logan's high local O&D percentage has remained stable over time.[3] Since connecting passengers represent only a small percentage of Logan's total passenger traffic, long-term growth in airport passengers is primarily a function of the underlying market demand. Unlike major connecting hub airports, Logan is not subject to large traffic fluctuations associated with changes in a dominant carrier's network strategy.

[3] Since 1996, Logan's percentage of local O&D passengers has been estimated at between 86 and 95 percent.

Exhibit 2-3: Top U.S. Airports Based on Local O&D Demand (YE Sept 2006)

Local %		Domstic Passenger Split	
Rank	Market	Local	Connect
1	Fort Lauderdale	91.6%	8.4%
2	Orlando	88.7%	11.3%
3	**Boston**	**87.7%**	**12.3%**
4	New York	80.2%	19.8%
5	Las Vegas	75.4%	24.6%
6	Baltimore	74.2%	25.8%
7	Seattle	72.0%	28.0%
8	Los Angeles	70.9%	29.1%
9	Washington	70.6%	29.4%
10	Phoenix	57.4%	42.6%
11	Chicago	50.3%	49.7%
12	Denver	49.2%	50.8%
13	Houston	45.0%	55.0%
14	Dallas/Fort Worth	43.6%	56.4%
15	Atlanta	34.8%	65.2%

Source: SH&E Estimates based on airport records, U.S. DOT, O&D and T100 Databases, Database Products

Logan Airport was one of the airports hardest hit by 9/11, as well as its aftershocks. Following this tragedy, departing passenger traffic at Boston dropped by 23.4 percent between Fiscal Year ("FY") 2000[4] and FY 2002, the second largest decline of any top 20 U.S. airport. This drop was almost twice the magnitude of average decline experienced within Logan's peer group. However, since FY 2002 traffic at the Airport has recovered, with Logan experiencing consistent growth. Between FY 2002 and Year Ending ("YE") September 2006[5], Logan experienced the sixth fastest growth among its peers (see Exhibit 2-4 below). For the period from FY 2002 to FY 2004, Logan experienced growth of approximately 19.1%. Growth slowed to approximately 6.6% for the period from FY 2004 to FY 2006. In the latest reported period, Logan handled 4.3 million more (or 27 percent) O&D passengers than it did four years ago (YE September 2006 vs. FY 2002). As at Logan, the rest of the 20 largest hub airports now also report O&D activity exceeding that of FY 2002.

[4] Massport has a fiscal year which ends on June 30th.
[5] The latest period from which O&D passenger statistics are available.

Exhibit 2-4: Top U.S. Airports Based on Domestic O&D Passenger Growth Over the Past Four Years (CY 2000 to YE Sept 2006)

YE 3Q06		Domestic O&D Passengers			Percent Change for Period		
Rank	Market	FY 2002	FY 2004	YE 3Q06	FY02-04	FY04-06	FY02-06
1	Washington	18,140,020	24,079,540	24,734,810	32.7%	2.7%	36.4%
2	Philadelphia	12,827,350	15,430,260	17,402,700	20.3%	12.8%	35.7%
3	Orlando	21,458,410	25,634,390	28,317,820	19.5%	10.5%	32.0%
4	Las Vegas	24,880,200	29,941,790	32,656,800	20.3%	9.1%	31.3%
5	Denver	16,997,040	19,580,110	21,919,110	15.2%	11.9%	29.0%
6	**Boston**	**16,074,920**	**19,153,130**	**20,414,670**	**19.1%**	**6.6%**	**27.0%**
7	New York	47,378,180	55,305,290	58,662,780	16.7%	6.1%	23.8%
8	Phoenix	19,204,820	22,163,140	23,763,520	15.4%	7.2%	23.7%
9	Minneapolis	12,439,840	14,187,790	15,259,850	14.1%	7.6%	22.7%
10	Houston	16,071,340	17,204,900	19,367,780	7.1%	12.6%	20.5%
11	Tampa	13,788,820	15,553,410	16,417,990	12.8%	5.6%	19.1%
12	Dallas/Fort Worth	22,342,950	24,276,210	26,291,370	8.7%	8.3%	17.7%
13	Fort Lauderdale	14,611,280	17,316,820	17,171,190	18.5%	-0.8%	17.5%
14	Chicago	35,245,540	38,747,390	41,149,950	9.9%	6.2%	16.8%
15	San Diego	13,336,360	14,694,810	15,420,360	10.2%	4.9%	15.6%
16	Seattle	17,660,630	18,833,440	19,963,370	6.6%	6.0%	13.0%
17	Atlanta	23,401,640	25,340,540	26,071,450	8.3%	2.9%	11.4%
18	Los Angeles	27,785,610	30,955,420	30,799,830	11.4%	-0.5%	10.8%
19	San Francisco	15,200,660	15,950,040	16,312,870	4.9%	2.3%	7.3%
20	Baltimore	15,002,260	15,637,710	15,648,700	4.2%	0.1%	4.3%

Source: U.S. DOT, O&D Database, Database Products

One reason for Logan Airport's rapid traffic rebound was a sharp decline in average domestic ticket prices on routes served by the Airport. Average fares at the Airport had been rising from 1990 through 2000, reaching a one-way peak average fare of $186.50 in 2000. Fares dropped significantly over 2001 and 2002 due to changes in the economy and the events of 9/11. Subsequently, there was a minor increase in average fares in 2003 and then a significant decline in 2004. Much of the ticket price decline at Logan can be attributed to JetBlue's arrival in Boston in 2004, AirTran's expansion of its Boston service, and Delta's Song initiative as well as the rapid growth of Southwest Airlines' service at the Manchester and Providence airports. Even with the recent fare increases, average ticket prices at Logan are still $22 or 14.0 percent lower in YE September 2006 than in YE September 2001.

In 2006, domestic passenger ticket prices at Logan, as measured in terms of airline yield (cents per seat mile) increased by 12.2 percent. This increase in yield was one of the largest of any major U.S. airport last year, as shown in Exhibit 2-5. Atlanta experienced the single largest increase as the bankrupt network carrier, Delta Air Lines slashed domestic capacity and led a number of successful industry-wide fare increases driven predominantly by the rising cost of jet fuel. New York's JFK airport, home of low cost carrier JetBlue Airlines, also witnessed a 15.2 percent increase in average yield as both network and LCCs increased average fares in response to rising jet fuel prices. JetBlue's yield at New York – JFK increased 12.9

percent while American, Delta, United, Northwest and US Airways experienced yield increases of 12.0 percent, 17.2 percent, 30.5 percent, 17.8 percent, and 23.7 percent, respectively. Continental Airlines was the only network carrier to not experience a yield increase with their average dropping 13.0 percent.

Exhibit 2-5: Top U.S. Airports in Terms of Increase in Domestic Yield Over the Past Year (YE Sept 2006 vs. YE Sept 2005)

		Avg. Stg.	Domestic Yield		
Rank	Airport	Length	YE 3Q05	YE 3Q06	% Chg.
1	Atlanta	869	15.20¢	17.67¢	16.2%
2	New York-JFK	1,593	8.62¢	9.93¢	15.2%
3	Philadelphia	1,117	11.05¢	12.54¢	13.5%
4	Las Vegas	1,223	8.92¢	10.10¢	13.3%
5	**Boston**	**1,227**	**10.97¢**	**12.31¢**	**12.2%**
6	Phoenix	1,130	10.15¢	11.31¢	11.4%
7	San Francisco	1,712	9.72¢	10.80¢	11.1%
8	Los Angeles	1,542	9.26¢	10.27¢	11.0%
9	Dallas/Fort Worth	1,021	15.05¢	16.61¢	10.4%
10	Seattle	1,411	9.70¢	10.68¢	10.1%
11	Orlando	1,073	9.89¢	10.89¢	10.0%
12	Chicago O'Hare	983	13.43¢	14.66¢	9.2%
13	Washington Dulles	1,236	12.20¢	13.22¢	8.3%
14	Minneapolis	1,034	14.40¢	15.51¢	7.7%
15	Miami	1,206	10.78¢	11.61¢	7.7%
16	Detroit Metropolitan	977	13.68¢	14.60¢	6.7%
17	Houston Intercontinental	1,064	14.48¢	15.27¢	5.4%
18	Denver	1,042	12.95¢	13.49¢	4.2%
19	New York-EWR	1,299	12.57¢	13.02¢	3.6%
20	Charlotte	850	18.56¢	18.81¢	1.3%

Source: U.S. DOT, O&D Database, Database Products

Yields have been steadily increasing industry wide as carriers have been removing capacity (seats) from their domestic systems and raising fares to combat rising fuel costs. Boston still remains a relatively high yield market (growing by 12.2 percent over the last year) and also one of the largest U.S. air travel markets in terms of passenger revenue generation. As shown in Exhibit 2-6, revenue generation is another measure of the strength of a market's air travel demand. For FY 2006, Boston ranked 12th among large non-connecting hub airports in terms of average yield and 9th in terms of passenger volume. As a result, Logan ranked 9th in terms of airline passenger revenues.

Exhibit 2-6: Top U.S. Airports Based on Annual Revenue Generation (YE Sept 2006)

Rank				Domestic	Passengers	Revenue
Yield	Psgr	Rev	Airport	Yield	(Million)	($ Million)
18	2	1	Los Angeles	10.27¢	30.8	$5,009.2
6	3	2	Chicago O'Hare	14.66¢	28.4	$4,205.9
19	1	3	Las Vegas	10.10¢	32.4	$4,118.1
2	5	4	Atlanta	17.67¢	26.1	$4,105.8
3	8	5	Dallas/Fort Worth	16.61¢	21.3	$3,737.3
15	4	6	Orlando	10.89¢	28.3	$3,423.3
10	11	7	New York-EWR	13.02¢	19.6	$3,379.1
8	7	8	Denver	13.49¢	21.9	$3,202.9
12	**9**	**9**	**Boston**	**12.31¢**	**20.4**	**$3,175.9**
17	10	10	Seattle	10.68¢	19.9	$3,142.5
14	6	11	Phoenix	11.31¢	23.8	$3,132.4
16	14	12	San Francisco	10.80¢	16.3	$3,114.6
20	13	13	New York-JFK	9.93¢	17.0	$2,717.0
4	15	14	Minneapolis	15.51¢	15.3	$2,540.9
11	12	15	Philadelphia	12.54¢	17.4	$2,517.0
5	17	16	Houston Intercontinental	15.27¢	13.4	$2,235.4
7	16	17	Detroit Metropolitan	14.60¢	14.9	$2,208.1
9	18	18	Washington Dulles	13.22¢	11.0	$1,838.9
13	19	19	Miami	11.61¢	9.4	$1,361.6
1	20	20	Charlotte	18.81¢	7.7	$1,298.2

Source: U.S. DOT, O&D Database, Database Products

Because of its large local O&D base and high revenue generation, Boston is a very competitive market, and is unique in this respect compared to other large airports. When compared to the leading carriers' percentage shares for carriers operating at Logan's peer airports, the largest carrier at Logan has one of the lowest market share statistics. More importantly the top three carriers at Logan have a balanced market share, more than at any large hub U.S. airport (Exhibit 2-7). As of March 2007, Delta Air Lines, the largest domestic air service provider at Logan, accounts for only 20.3 percent of the Airport's scheduled domestic seat capacity. US Airways is nearly as large with a 19.6 percent domestic share, while jetBlue and American Airlines, respectively with 16.1 percent and 14.6 percent of domestic scheduled seats, are close behind in terms of market share. Such relative parity among the top four carriers is only found at two other large hub U.S. airports, and indicates that airlines are actively competing for share in the Boston market.

Boston is one of the few markets where a carrier's strategic actions can dramatically affect its market position. The contestability of the Boston market is evidenced by the evolving market shares over time. US Airways, American and Delta, have each been the largest carrier at Logan for some portion of time since 1990. But more importantly, the balance of service provided by the second and third carriers has also changed over time.

Exhibit 2-7: Domestic Carrier Market Share at Boston Logan and Other Large-Hub Airports, Share of Scheduled Seats (March 2007)

		Carrier Share of Non-Stop Domestic Weekly Seats			
Rank	Airport	Largest	2nd Largest	3rd Largest	All Other
1	Fort Lauderdale	15.1%	14.7%	14.2%	55.9%
2	**Boston**	**20.3%**	**19.6%**	**16.1%**	**43.9%**
3	Orlando	23.7%	16.4%	10.9%	49.0%
4	New York-LGA	24.3%	23.0%	21.1%	31.7%
5	Los Angeles	26.4%	20.1%	19.5%	34.0%
6	Las Vegas	40.7%	22.4%	7.5%	29.4%
7	Phoenix	42.4%	34.9%	4.3%	18.4%
8	Washington National	45.5%	14.8%	13.4%	26.4%
9	New York-JFK	49.7%	25.3%	14.3%	10.7%
10	Chicago O'Hare	50.9%	37.9%	3.0%	8.2%
11	Seattle	51.5%	11.4%	10.1%	27.0%
12	Denver	54.9%	21.5%	5.5%	18.1%
13	San Francisco	55.8%	12.7%	6.6%	24.8%
14	Baltimore Washington	58.5%	11.0%	6.8%	23.7%
15	Philadelphia	60.3%	15.9%	4.8%	18.9%
16	Cleveland	63.6%	13.0%	5.1%	18.3%
17	Washington Dulles	67.5%	8.5%	4.9%	19.0%
18	New York-EWR	68.1%	7.3%	4.7%	20.0%
19	Salt Lake City	68.8%	15.8%	4.2%	11.2%
20	Atlanta	70.9%	20.5%	2.5%	6.1%
21	Detroit	73.4%	5.9%	4.6%	16.0%
22	Minneapolis	76.4%	6.1%	3.6%	13.8%
23	Dallas/Fort Worth	84.2%	2.6%	2.5%	10.7%
24	Charlotte	87.2%	3.3%	2.6%	6.9%
25	Houston Intercontinental	87.7%	3.0%	2.2%	7.1%

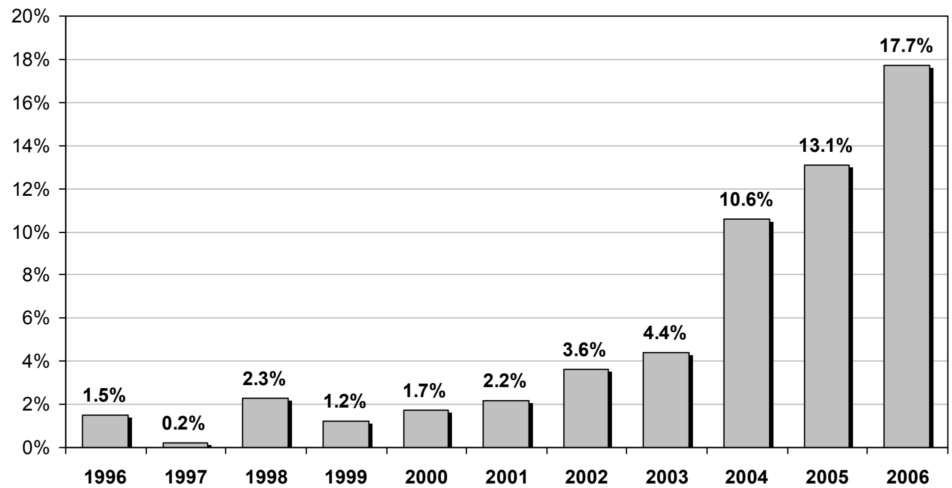
Source: OAG Schedule Tapes, March 2007

2.4 LOW COST CARRIER DEVELOPMENT

Logan Airport has experienced significant low cost carrier expansion over the past three years (CY 2004 to CY 2006) which has changed the air service dynamics within this market (Exhibit 2-8 below). Until relatively recently, Logan had limited low cost carrier service. In the mid 1990's, Southwest Airlines developed a strategy of serving the Boston market through Providence and Manchester, intentionally bypassing service to Logan. As late as 2001, LCCs at Logan averaged roughly 2.0 percent share of the total seats offered. However, as can be seen in Exhibit 2-8, the picture has changed strikingly over the last three years. Starting in 2004, Logan experienced a rapid increase in the LCCs' share of total departures and seats; growing from 4.4 percent of weekly domestic seats in the Boston market in 2003, to 10.6 percent in 2004, and to 13.1 percent in 2005. In August 2006, 17.7 percent of all domestic seats offered at Logan were offered by LCCs. The exponential growth over the past three years has caused Logan to almost reach the national average for LCC market share. As of March 2007, LCCs provided 23.2 percent of seats at Logan. For the same period, LCCs provided approximately 26.0

percent of all domestic scheduled seats operated in the U.S. and are continuing to grow, though somewhat more slowly than in the recent past.

Exhibit 2-8: Increase in Low Cost Carrier Penetration at Logan, Weekly Seats (August 1995 to August 2006)



Source: OAG Schedule Tapes, August Month

Logan Airport is currently served by three LCCs : AirTran, JetBlue, and Spirit Airlines with American Trans Air (ATA) and Independence Air discontinuing service in 2005[6].

Exhibit 2-9: Growth in Weekly Low Cost Carrier Service at Logan (August 2004 to August 2006)

	2004			2005			2006		
Carrier	Depts.	Seats	Share	Depts.	Seats	Share	Depts.	Seats	Share
AirTran Airways	149	17,433	41.5%	155	18,135	37.7%	206	24,375	36.8%
American Trans Air	26	4,740	11.3%	32	5,440	11.3%	-	-	0.0%
Independence Air	112	5,600	13.3%	56	4,932	10.2%	-	-	0.0%
JetBlue	91	14,196	33.8%	126	19,656	40.8%	318	39,640	59.9%
Spirit Airlines	-	-	0.0%	-	-	0.0%	16	2,208	3.3%
Total	**378**	**41,969**	**100.0%**	**369**	**48,163**	**100.0%**	**540**	**66,223**	**100.0%**

Source: OAG Schedule Tapes, August Month

[6] For the purposes of this report, SH&E does not consider US Airways a LCC, because the carrier generates fares at Logan Airport comparable to legacy carriers. The average domestic stage length adjusted yield for US Airways from Logan was 17.4¢ per Available Seat Mile ("ASM") for the YE Sept 2006. This revenue performance was comparable to legacy carrier yield of 18.9¢ (legacy carriers used for this comparison included American, United, Delta, Northwest and Continental). This is in contract to the average yield generated by LCCs at Logan which, for the same period, was 11.8¢ per ASM.

JetBlue is currently the largest LCC at Logan in terms of frequencies; offering 45 daily flights to 19 destinations. Approximately one-quarter of these destinations are to Florida markets (Ft. Lauderdale, Orlando, West Palm Beach, Fort Myers, and Tampa). Another 42 percent of JetBlue flights originating in Boston are to long-haul markets (Austin, Denver, Las Vegas, Long Beach, Oakland, Phoenix, Seattle, San Jose, and Nassau) in keeping with JetBlue's intended expansion plans at Logan. The balance of destinations offered by JetBlue are to medium- to short-haul markets along the busy northeast corridor (Buffalo, Washington – IAD, New York – JFK, Pittsburgh, and Richmond). JetBlue moved into the Terminal C space vacated by Delta Air Lines when the latter moved to Terminal A in 2005. The carrier signed an agreement with Massport in January 2005 to take over 11 gates and 28 ticket counter positions in Terminal C by November 1, 2008 and to invest more than $9 million in the refurbishment and upgrade of its new terminal facilities. JetBlue currently operates from eight gates and 20 ticket counter positions[7].

The second largest low cost carrier at Logan, AirTran, started service at the Airport in 1997 with four daily flights to Atlanta. Since 2002, the carrier has steadily added service and new markets. AirTran currently offers 29 daily departures to seven destinations (Atlanta, Baltimore, Akron/Canton, Chicago – MDW, Newport News, Philadelphia, and Rochester). Boston has been a successful market for AirTran and with a backlog of new aircraft on order, it is likely that the carrier will continue its expansion of service at Logan. AirTran currently occupies four gates in Logan's Terminal C, one of which is sublet from United Airlines.

Spirit Airlines started service at Logan in August 2006 with non-stop daily service to Detroit and Myrtle Beach. These flights are flown using Spirit Airbus A319s capable of holding 138 passengers. Spirit is currently located in Terminal B at Logan, subleasing space from US Airways.

2.5 MARKET SHIFT DUE TO RAPID GROWTH OF LOW COST CARRIER SERVICE AT LOGAN

The rise of LCCs at Boston has changed the market dynamics between the three airports that provide overlapping service in New England; Logan Airport, T.F. Green/Providence and Manchester. Southwest Airlines introduced service at T.F. Green in 1996 and at Manchester in 1998. Between 1996 and 2002, higher service

[7] JetBlue Annual Report, 2006.

levels and competitive airfares raised the profile of these airports, transforming them into attractive alternatives to Logan.

From 1995 to 2000, overall domestic air travel at major airports in New England grew by 5.9 percent annually, almost 50.0 percent higher than the U.S. industry average, which grew by 4.0 percent annually. However, over that period passenger traffic at Logan Airport grew more slowly, by an average of 2.8 percent per year. T.F. Green and Manchester gained extensive new service from Southwest Airlines and experienced significant growth in passenger traffic. These airports grew at average annual rates of 20.0 and 29.0 percent, respectively, from 1995 to 2000 (Exhibit 2-10). However, viewed as a single market comprised of the three airports, the region grew at an average annual rate of 5.9 percent**.**

Exhibit 2-10: Passenger Activity at New England Regional Airports and Logan Airport (in Millions)

	Airport Passengers					Compounded Annual Growth			
Airport	**1995**	**2000**	**2002**	**2004**	**2006**	**CY95/00**	**CY00/02**	**CY02/04**	**CY04/06**
Logan Airport	24.19	27.73	22.70	26.14	27.09	2.8%	-9.5%	7.3%	1.8%
T.F. Green/Providence	2.17	5.43	5.39	5.51	5.26	20.1%	-0.4%	1.1%	-2.3%
Manchester, NH	0.90	3.17	3.36	4.00	3.90	28.6%	3.0%	9.1%	-1.3%
Regional Market	**27.26**	**36.33**	**31.45**	**35.65**	**36.25**	**5.9%**	**-7.0%**	**6.5%**	**0.8%**
Boston Logan Airport	**24.19**	**27.73**	**22.70**	**26.14**	**27.09**	**2.8%**	**-9.5%**	**7.3%**	**1.8%**
Providence / Manchester Combined	**3.07**	**8.60**	**8.75**	**9.51**	**9.16**	**22.9%**	**0.9%**	**4.3%**	**-1.9%**

Source: Individual Airport Reports, Note: 2006 Total Passengers for T.F. Green annualized based upon YTD –July reported passengers.

Between CY 2000 and CY 2002, T.F. Green and Manchester were much less affected than Logan in terms of traffic reductions. While Logan declined by 9.5 percent per year for the two-year period, T.F. Green experienced a minimal decline and Manchester actually continued its growth, however at a more gradual pace.

Between CY 2002 and CY 2004, with the advent of an economic recovery and expansion of low cost carrier activity at Logan, passenger traffic at the Airport grew by an average 7.3 percent per year. Manchester resumed strong growth at 9.2 percent annually, while T.F. Green did not experience the same level of growth, growing at a rate of 1.1 percent annually.

In the past two years, passenger traffic at Logan has grown by an average of 1.8 percent per year, while T.F. Green and Manchester have experienced declines of 2.3 percent and 1.3 percent, respectively or a 1.9% combined rate of decline, partially driven by the increased low cost carrier competition from jetBlue, AirTran, and Spirit at Logan. Within the course of the past 5 years, the low cost carrier passenger

competition appears to have shifted to Logan's favor through the new service provided by these carriers. Based on continued announcements of new low cost carrier service at Logan, this trend will likely continue, however, at a slower rate (as described further in Chapter 5 of this report).

3 ECONOMIC CHARACTERISTICS OF THE BOSTON LOGAN SERVICE AREA

3.1 INTRODUCTION

A number of economic, demographic and social factors in the Boston Service Area impact traffic flow through the Airport. Two factors in particular, income and population, are highly correlated to the level of air travel and serve as strong predictors of future travel demand. As a major business and leisure destination, the local economic climate and leisure industries are critical to the Boston Service Area and their associated travel influences passenger traffic at the Airport.

Air travel demand in the U.S. has largely rebounded from the multiple shocks to the air transportation system since 2000. The economic downturn, increasing unemployment in early 2001, the events of 9/11 and threat of additional terrorist activities, the Iraq war, and the SARS epidemic, all combined with the downturn in the business cycle to create an unprecedented decline in U.S. air travel.

Despite external market shocks, the Boston Service Area has demonstrated a high level of resilience to economic adversity over time. The underlying economic characteristics of the region are strong and steady; income, employment and population indicators have remained relatively stable and have tended to outperform national averages. Total employment levels for the region are currently at an all time high. Average per capita income is currently 32.0ercent higher than the national average, and economic forecasts project this gap is expected to grow over time.

In summary, current economic indicators present positive signs both for the Boston Service Area and the New England region. Long term projections of economic activity for the Boston Service Area suggest that demand for air travel in the region will continue to grow at sustained but stable growth rates.

This section of the report reviews various economic indicators for the region and the outlook for long-term demographic and economic growth.

3.2 ECONOMIC TRENDS AND FUTURE OUTLOOK

Massachusetts appears to be recovering well from the economic challenges experienced earlier in the decade. Since 2003, the economy has been improving with an increased growth of Massachusetts Real Gross State Product ("GSP") and an increase in jobs. Particularly strong, professional services and health care industries in the Boston Service Area are growing, and together provide 33 percent of local employment, while construction employment has been increasing at the fastest rate.

3.2.1 Review of Historic Economic Trends in Boston and Massachusetts

For most of the 1980s, economic growth in the Boston Service Area and Massachusetts overall significantly outpaced national economic growth. The region's computer and defense related industries were the sectors which most contributed to the region's impressive economic growth during the 1980s. However, changes in the demand for computer products, such as the shift from mainframe to personal computers, and massive reductions in federal defense spending contributed to the region's economic recession that began in 1989, more than a year in advance of the national recession. This recession was severe and extended for approximately four years, continuing into 1992. In 1990 and 1991, the Massachusetts GSP declined by over 3.0ercent each year. The State's unemployment rate, which had been as low as 2.8 percent in mid-1987, rose to 9.6 percent in mid-1991, nearly 3.0ercentage points above the national unemployment rate.

However, the region's economy diversified and recovered with economic growth that once again consistently exceeded the nation as a whole. From 1994 to 2000, Massachusetts' GSP grew at an average annual rate of 5.5 percent, compared to annual growth of 3.8 percent for U.S. Real Gross Domestic Product ("GDP"). High technology companies led the region's economic growth and expansion, but in a far more diversified manner than in the 1980s. The computer related industries - hardware, software, communications equipment and providers, internet providers, and other related businesses - emerged at the forefront of the national growth relative to peers in these industries. At the same time, the region's economic base also expanded with exceptional growth in service industries, particularly business, financial and professional services, tourism related industries, education and health care services, and other non-manufacturing sectors. Six major industries, which cross traditional definitions of industry sectors and account for more than one half of the Boston area employment base, have produced a disproportionate share of the region's economic growth since the early 1990s.

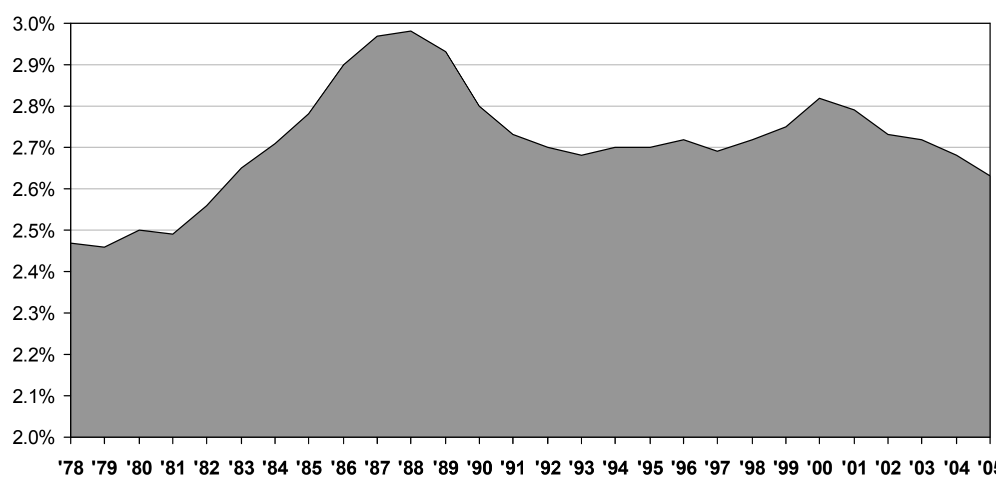
These leading industries are:

- High technology
- Biotechnology
- Financial services
- Health care
- Education and consulting
- Tourism

Massachusetts GSP and U.S. GDP

The strength and growth of the region's economy is reflected in its GSP and unemployment performance when benchmarked against national and other major metropolitan markets. In 1988, Massachusetts' GSP peaked at a 3.0 percent share of national GDP. Massachusetts' GSP then declined to a low of 2.7percent of U.S. GDP in 1993, because the State's recession was more severe than national trends and recovered more slowly than the nation. In the last seven years, Massachusetts's GSP reached a high of 2.8 percent share of U.S. GDP in 2000 but had declined to 2.6 percent of U.S. GDP in 2005 (Exhibit 3-1).

Exhibit 3-1: Massachusetts GSP as a Percent of U.S. GDP (1978 to 2005)

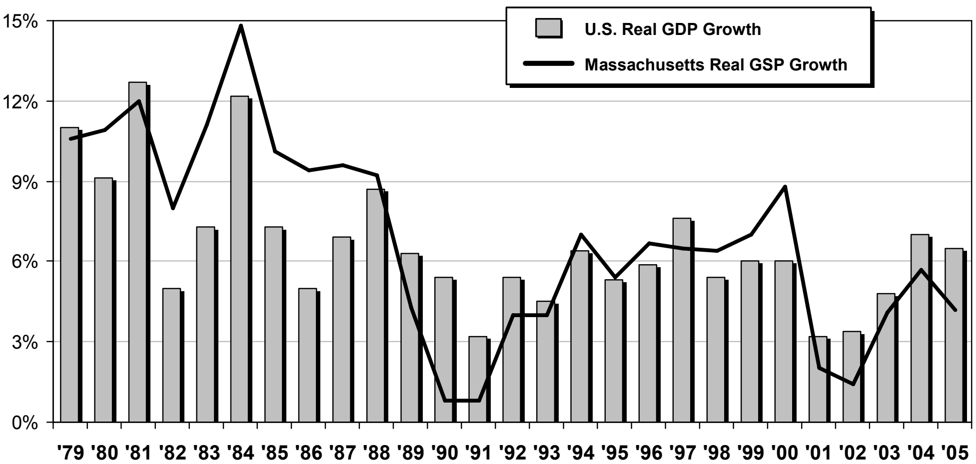


Source: U.S. Department Of Commerce, Bureau Of Economic Analysis (BEA)

In recent years Massachusetts' GSP has been growing, but at a slower rate than U.S. GDP. The average annual growth rate from 2000 to 2005 for Massachusetts' GSP

was 3.5 percent while U.S. GDP grew at 4.9 percent annually. Annual growth rates for Massachusetts and the U.S. are shown in Exhibit 3-2 below.

Exhibit 3-2: Annual Growth in Massachusetts GSP and U.S. GDP (1979 to 2005)



Source: U.S. Department Of Commerce, Bureau Of Economic Analysis (BEA)

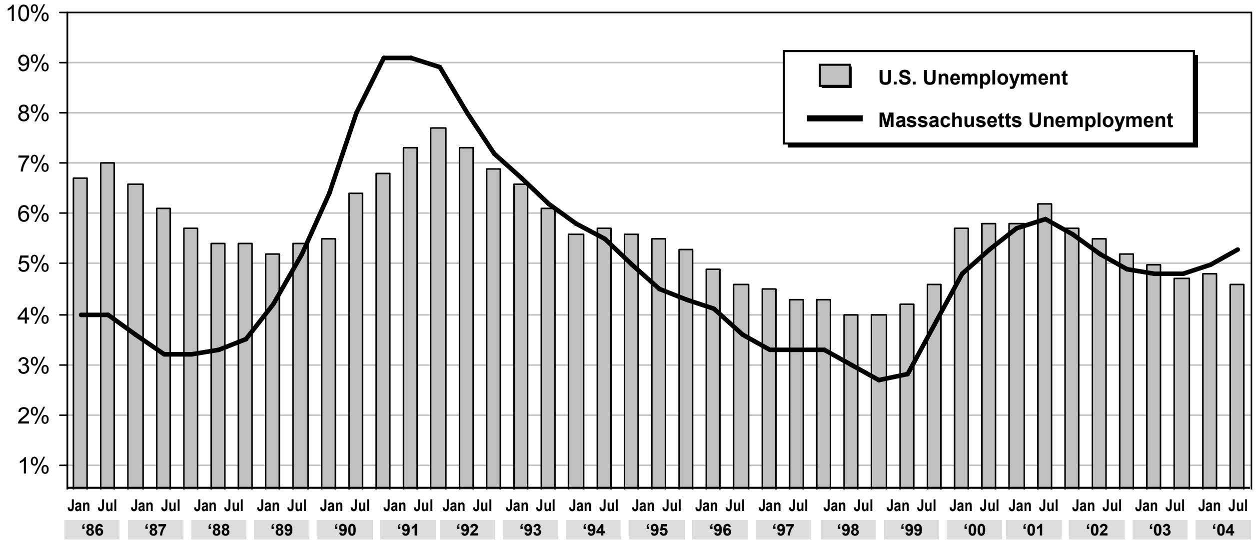
Employment

Unemployment in Massachusetts has historically been below the national average (see

Exhibit 3-3). Between 1986 and 1991, the U.S. unemployment rate remained higher than in Massachusetts, but in the early 1990's, the economic recession significantly impacted Massachusetts and its unemployment rate rose to a level significantly higher than the U.S. average. The State recovered from that situation and from 1996 to 2005 the unemployment rate remained below the U.S. average. Unfortunately, with the labor force population growing at a faster pace than the job creation, the unemployment rate in Massachusetts has grown and has exceeded the average U.S. unemployment rate since January 2006, reaching 5.3 percent. It is important to reiterate that overall employment in the State increased from 2004 to 2006.

The unemployment rate in the Boston area has been on the rise. Boston is ranked 37th in unemployment among metropolitan areas with an unemployment rate of 5.2 percent as of February 2007 (see Exhibit 3-4). For comparison purposes, in December 2004, Boston ranked 6th in unemployment rates with unemployment at 3.5 percent of the population, according to the Bureau of Labor Statistics.

Exhibit 3-3: Unemployment Rates for Massachusetts and the U.S. (1986 to 2007)



Source: U.S. Department Of Commerce, Bureau Of Labor Statistics (BLS)

Exhibit 3-4: Unemployment Rate for Large Metropolitan Areas – Monthly Rankings (February 2007)

Rank	Metropolitan Area	February 2007 Unemployment Rate
4.0 % Unemployment or Lower		
1	Miami-Fort Lauderdale-Pompano Beach, FL MSA	3.1
1	Orlando-Kissimmee, FL MSA	3.1
3	Jacksonville, FL MSA	3.2
3	Washington-Arlington-Alexandria, DC-VA-MD-WV M	3.2
5	Richmond, VA MSA	3.3
5	Tampa-St. Petersburg-Clearwater, FL MSA	3.3
7	Birmingham-Hoover, AL MSA	3.4
7	Phoenix-Mesa-Scottsdale, AZ MSA	3.4
7	Virginia Beach-Norfolk-Newport News, VA-NC MSA	3.4
10	Austin-Round Rock, TX MSA	3.8
10	New Orleans-Metairie-Kenner, LA MSA	3.8
4.0 % - 4.9 % Unemployment		
	22 Metropolitan Areas	
Over 5 % Unemployment		
34	Chicago-Naperville-Joliet, IL-IN-WI MSA	5.0
34	Rochester, NY MSA	5.0
36	Riverside-San Bernardino-Ontario, CA MSA	5.1
37	**Boston-Cambridge-Quincy, MA-NH M NECTA**	**5.2**
37	Cincinnati-Middletown, OH-KY-IN MSA	5.2
39	Sacramento--Arden-Arcade--Roseville, CA MSA	5.3
40	Buffalo-Niagara Falls, NY MSA	5.4
41	Kansas City, MO-KS MSA	5.5
41	Milwaukee-Waukesha-West Allis, WI MSA	5.5
43	Portland-Vancouver-Beaverton, OR-WA MSA	5.6
44	Memphis, TN-MS-AR MSA	5.7
44	Providence-Fall River-Warwick, RI-MA M NECTA	5.7
44	St. Louis, MO-IL MSA	5.7
47	Cleveland-Elyria-Mentor, OH MSA	5.9
47	Louisville-Jefferson County, KY-IN MSA	5.9
49	Detroit-Warren-Livonia, MI MSA	6.7

Source: U.S. Department Of Commerce, Bureau Of Labor Statistics (BLS)

In Exhibit 3-5, U.S. metropolitan areas are listed based upon total non-farm employees. The Boston Service Area is ranked 9th, with 2.4 million employees as of February 2007, an increase of 1.2 percent year-over-year. The region experienced declines in total non-agricultural employment from 2002 to 2004. However, from 2005 to 2006 employment increased, but remains below the high of 2001.

Exhibit 3-5:Non-Farm Employment for Major Metropolitan Areas and Total U.S. Non-Seasonally Adjusted (February 2006 to February 2007)

Metropolitan Area	Employee Rank	Non-Farm Employees (000) Feb 2007	Feb 2006	Net Change	Pct Change	Rank by Percent Change
New York-Northern New Jersey-Long Island, NY-NJ-PA MSA	1	8,363.8	8,277.1	86.7	1.0%	20
Los Angeles-Long Beach-Santa Ana, CA MSA	2	5,647.1	5,589.8	57.3	1.0%	21
Chicago-Naperville-Joliet, IL-IN-WI MSA	3	4,455.9	4,413.7	42.2	1.0%	23
Washington-Arlington-Alexandria, DC-VA-MD-WV MSA	4	2,967.7	2,919.6	48.1	1.6%	14
Dallas-Fort Worth-Arlington, TX MSA	5	2,896.3	2,802.3	94.0	3.4%	4
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD MSA	6	2,786.7	2,760.4	26.3	1.0%	24
Houston-Sugar Land-Baytown, TX MSA	7	2,484.7	2,394.5	90.2	3.8%	2
Miami-Fort Lauderdale-Pompano Beach, FL MSA	8	2,442.2	2,413.3	28.9	1.2%	18
Boston-Cambridge-Quincy, MA-NH M NECTA	**9**	**2,433.1**	**2,403.8**	**29.3**	**1.2%**	**17**
Atlanta-Sandy Springs-Marietta, GA MSA	10	2,406.8	2,364.9	41.9	1.8%	11
San Francisco-Oakland-Fremont, CA MSA	11	2,032.1	1,991.8	40.3	2.0%	10
Detroit-Warren-Livonia, MI MSA	12	1,964.0	1,996.5	-32.5	-1.6%	31
Phoenix-Mesa-Scottsdale, AZ MSA	13	1,949.3	1,862.9	86.4	4.6%	1
Seattle-Tacoma-Bellevue, WA MSA	14	1,702.6	1,653.1	49.5	3.0%	6
Minneapolis-St. Paul-Bloomington, MN-WI MSA	15	1,521.0	1,506.1	14.9	1.0%	22
St. Louis, MO-IL MSA	16	1,339.6	1,324.3	15.3	1.2%	19
Tampa-St. Petersburg-Clearwater, FL MSA	17	1,317.3	1,295.6	21.7	1.7%	13
Baltimore-Towson, MD MSA	18	1,308.3	1,301.3	7.0	0.5%	26
San Diego-Carlsbad-San Marcos, CA MSA	19	1,302.7	1,296.3	6.4	0.5%	27
Riverside-San Bernardino-Ontario, CA MSA	20	1,300.6	1,260.5	40.1	3.2%	5
Denver-Aurora, CO MSA	21	1,208.1	1,187.7	20.4	1.7%	12
Pittsburgh, PA MSA	22	1,121.1	1,114.5	6.6	0.6%	25
Orlando-Kissimmee, FL MSA	23	1,092.2	1,062.6	29.6	2.8%	7
Cleveland-Elyria-Mentor, OH MSA	24	1,052.2	1,057.6	-5.4	-0.5%	30
Cincinnati-Middletown, OH-KY-IN MSA	25	1,021.8	1,020.9	0.9	0.1%	29
Portland-Vancouver-Beaverton, OR-WA MSA	26	1,016.9	996.1	20.8	2.1%	9
Kansas City, MO-KS MSA	27	988.9	975.7	13.2	1.4%	16
Las Vegas-Paradise, NV MSA	28	933.3	900.8	32.5	3.6%	3
Columbus, OH MSA	29	918.4	915.2	3.2	0.3%	28
Sacramento--Arden-Arcade--Roseville, CA MSA	30	905.4	891.7	13.7	1.5%	15
San Jose-Sunnyvale-Santa Clara, CA MSA	31	901.4	880.0	21.4	2.4%	8
Sub Total:		**63,781.5**	**62,830.6**	**950.9**	**1.5%**	
Rest Of U.S.		73,660.5	72,579.4	1,081.1	1.5%	
Total U.S.		**137,442.0**	**135,410.0**	**2,032.0**	**1.5%**	

Source: U.S. Department Of Commerce, Bureau Of Labor Statistics (BLS)

If non-agricultural employment is separated by industry sector, Education and Health Services, Trade, Transportation and Utilities and Professional and Business Services lead in overall employees in Massachusetts as of February 2007 (Exhibit 3-6).

Exhibit 3-6: Non-Agricultural Employment by Industry Sector for Massachusetts and the U.S. (as of February 2007)

	February 2007 Non-Farm Employees (000)		Percent Change from Prior Year	
Industry Sector	**US**	**MA**	**US**	**MA**
Trade, Transportation, & Utilities	26,399.0	573.5	0.8%	0.9%
Government	22,173.0	433.5	1.4%	1.5%
Education & Health Services	18,136.0	614.5	2.7%	2.5%
Professional & Business Services	17,836.0	480.2	2.6%	2.4%
Manufacturing	14,119.0	297.4	-0.7%	-1.3%
Leisure & Hospitality	13,428.0	294.7	3.4%	0.1%
Financial Activities	8,451.0	223.2	1.8%	0.2%
Construction	7,657.0	139.2	-0.1%	-2.7%
Other Services	5,449.0	118.4	0.6%	0.0%
Information	3,083.0	88.0	0.8%	1.4%
Natural Resources & Mining	711.0	1.9	7.6%	0.0%
Total	**137,442.0**	**3,264.5**	**1.5%**	**1.0%**
Percent of Total			**MA More/Less than US**	
Trade, Transportation, & Utilities	19.2%	17.6%	-1.6%	
Government	16.1%	13.3%	-2.9%	
Education & Health Services	13.2%	18.8%	5.6%	
Professional & Business Services	13.0%	14.7%	1.7%	
Manufacturing	10.3%	9.1%	-1.2%	
Leisure & Hospitality	9.8%	9.0%	-0.7%	
Financial Activities	6.1%	6.8%	0.7%	
Construction	5.6%	4.3%	-1.3%	
Other Services	4.0%	3.6%	-0.3%	
Information	2.2%	2.7%	0.5%	
Natural Resources & Mining	0.5%	0.1%	-0.5%	
Total	**100.0%**	**100.0%**		

Source: U.S. Department Of Commerce, Bureau Of Labor Statistics (BLS)

Since 1997, Education and Health Services along with Professional and Business Services have increased the most as a percentage of total jobs, while manufacturing has decreased the most (Exhibit 3-7).

Exhibit 3-7: Non-Agricultural Employment by Industry Sector for Massachusetts and the U.S. (February 1997 to February 2007)

	Non-Farm Employees (000)				Annual Pct Change			Net Change (000s)		
Industry Sector	**1997**	**2000**	**2006**	**2007**	**97-07**	**00-07**	**06-07**	**97-07**	**00-07**	**06-07**
Trade, Transportation, & Utilities	562.5	597.5	568.4	573.5	0.2%	-0.6%	0.9%	11.0	(24.0)	5.1
Government	410.0	433.1	427.0	433.5	0.6%	0.0%	1.5%	23.5	0.4	6.5
Education & Health Services	534.1	543.1	599.3	614.5	1.4%	1.8%	2.5%	80.4	71.4	15.2
Professional & Business Services	413.0	480.5	468.8	480.2	1.5%	0.0%	2.4%	67.2	(0.3)	11.4
Manufacturing	408.6	400.7	301.3	297.4	-3.1%	-4.2%	-1.3%	(111.2)	(103.3)	(3.9)
Leisure & Hospitality	255.8	272.3	294.4	294.7	1.4%	1.1%	0.1%	38.9	22.4	0.3
Financial Activities	210.2	226.2	222.8	223.2	0.6%	-0.2%	0.2%	13.0	(3.0)	0.4
Construction	98.6	123.6	143.1	139.2	3.5%	1.7%	-2.7%	40.6	15.6	(3.9)
Other Services	98.8	110.3	118.4	118.4	1.8%	1.0%	0.0%	19.6	8.1	-
Information	95.6	105.9	86.8	88.0	-0.8%	-2.6%	1.4%	(7.6)	(17.9)	1.2
Natural Resources & Mining	1.3	1.4	1.9	1.9	3.9%	4.5%	0.0%	0.6	0.5	-
Total	**3,088.5**	**3,294.6**	**3,232.2**	**3,264.5**	**0.6%**	**-0.1%**	**1.0%**	**176.0**	**(30.1)**	**32.3**
Percent of Total										
Trade, Transportation, & Utilities	18.2%	18.1%	17.6%	17.6%	-0.4%	-0.5%	0.0%			
Government	13.3%	13.1%	13.2%	13.3%	0.0%	0.1%	0.1%			
Education & Health Services	17.3%	16.5%	18.5%	18.8%	0.9%	1.9%	0.3%			
Professional & Business Services	13.4%	14.6%	14.5%	14.7%	1.0%	0.1%	0.2%			
Manufacturing	13.2%	12.2%	9.3%	9.1%	-3.7%	-4.0%	-0.2%			
Leisure & Hospitality	8.3%	8.3%	9.1%	9.0%	0.9%	1.3%	-0.1%			
Financial Activities	6.8%	6.9%	6.9%	6.8%	0.0%	-0.1%	-0.1%			
Construction	3.2%	3.8%	4.4%	4.3%	2.9%	1.8%	-0.2%			
Other Services	3.2%	3.3%	3.7%	3.6%	1.3%	1.2%	0.0%			
Information	3.1%	3.2%	2.7%	2.7%	-1.4%	-2.5%	0.0%			
Natural Resources & Mining	0.0%	0.0%	0.1%	0.1%	3.3%	4.6%	0.0%			
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**						

Source: U.S. Department Of Commerce, Bureau Of Labor Statistics (BLS)

As shown in Exhibit 3-8, nine of the top Fortune 500 companies are located in the Boston and surrounding area with 2005 revenues ranging from $6 to $23 billion. Another 12 companies are in the Fortune 500 to 1000 companies with 2005 revenues of $1.5 to $3 billion. The companies listed cover several different industry sectors such as insurance, financial, aerospace, retail, technology and pharmaceuticals.

Exhibit 3-8: Massachusetts Fortune 1000 Companies (as of YE 2005)

Fortune 1000 Rank				2005 Rev.
2006	2005	Company (Location)	Industry	($ Million)
92	83	Mass. Mutual Life Ins. (Springfield)	Insurance: Life, Health (mutual)	$22,799
97	103	Raytheon (Waltham)	Aerospace and Defense	$21,894
102	111	Liberty Mutual Ins. Group (Boston)	Insurance: P & C (stock)	$21,161
137	146	Staples (Framingham)	Specialty Retailers	$16,079
138	141	TJX (Framingham)	Specialty Retailers	$16,058
249	266	EMC (Hopkinton)	Computer Peripherals	$9,664
288	284	BJ's Whole Sale Club (Natick)	Specialty Retailers	$7,950
307	341	State Street Corp. (Boston)	Commercial Banks	$7,496
346	352	Boston Scientific (Natick)	Medical Products and Equipment	$6,283
574	575	NSTAR (Boston)	Utilities: Gas and Electric	$3,243
622	N/A	Hanover Insurance Group (Worcester)	Insurance: P & C (stock)	$2,968
643	713	Genzyme (Cambridge)	Pharmaceuticals	$2,735
658	680	Thermo Electron (Waltham)	Scientific, Photo, Control Equipment	$2,633
706	708	Biogen Idec (Cambridge)	Pharmaceuticals	$2,423
712	623	Analog Devices (Norwood)	Semiconductors and Other Electronic Components	$2,389
772	775	Cabot (Boston)	Chemicals	$2,125
783	811	Iron Mountain (Boston)	Diversified Outsourcing	$2,078
837	817	Commerce Group (Webster)	Insurance: P & C (stock)	$1,884
884	799	Perini (Framingham)	Engineering, Construction	$1,734
897	855	PerkinElmer (Wellesley)	Scientific, Photo, Control Equipment	$1,698
990	962	Boston Properties (Boston)	Real Estate	$1,447

Source: Fortune, April 2006

The top employers in Massachusetts are listed in Exhibit 3-9 below. Some of these employers are not headquartered in Massachusetts or the Boston Service Area.

Exhibit 3-9: The 25 Largest Private Employers in Massachusetts (June 2006)

Bank of America	Harvard University
Baystate Medical Center	Home Depot
Beth Isreal Deaconess Medical Center	Massachusetts Institute of Technology
Big Y Foods	Raytheon Company
Boston Medical Center Corporation	S&S Credit Company
Boston University	Shaw's Supermarkets
Brigham and Women's Hospital	Southcoast Hospitals Group
Children's Hospital	State Street Bank and Trust
Demoulas Super Markets	Umass Memorial Medical Center
EMC Corporation	United Parcel Service
Federated Retail Holdings	Verizon New England
Friendly Ice Cream	Wal-Mart
General Hospital Corporation	

Source: Massachusetts State Data Center (Mass SDC), January 2007

3.3 MAJOR INDUSTRY SECTORS IN THE GREATER BOSTON REGION

3.3.1 Higher Technology

There are several high profile industries which play a prominent role in the Boston Service Area's economy. Technology, biotechnology, health care services, financial services and higher education are some of the leading industries in the Boston region.

High technology industries encompass a number of economic activities that cut across traditional definitions of industrial sectors. They include research and development, manufacturing, distribution, management activities and consulting related to high technology products and services. Within the Boston Service Area, high technology industries are heavily involved in the development of computer software and related information technology activities, research and development of new technology products and procedures and the manufacture and/or distribution of computer and electronic related equipment. Exhibit 3-10 shows the largest technology companies and software developers in the Boston Service Area.

Exhibit 3-10: Largest Technology Employers in the Boston Service Area in 2006, Ranked by Employment in Massachusetts

Rank	Company	Location	2006 Revenues (Millions)	Mass Employees
1	EMC	Hopkinton	$9,664	8,000
2	IBM	Waltham	$91,134	6,000
3	Texas Instruments	Attleborough	$13,392	3,500
4	Analog Devices	Norwodd	$2,389	2,678
5	Hewlett-packard	Marlborough	$86,700	2,600
6	Meditech	Westwood	$305	2,500
7	Intel	Norwood	$38,826	2,350
8	Sun Mircrosystems	Burlington	$13,068	2,200
9	Teradyne	Boston	$1,100	1,800
10	Cisco	Boxborough	$24,800	1,500
11	Kronos	Chelmsford	$519	1,300
12	Brooks Automation	Chelmsford	$693	1,241
13	Thermo Fisher Scientific	Waltham	$2,633	1,200
14	Invensys Process Systems	Foxborough	$1,300	1,150
15	Varian Semiconductor Equipment	Gloucester	NA	1,100
16	Nortel Networks	Billerica	$10,523	1,000
17	Axcelis Technologies	Beverly	$372,500	1,000
18	International Data Group	Boston	$2,680	964
19	PTC	Needham	$744	947
20	Vicor	Andover	$179	927

Source: Book of Lists 2007

3.3.2 Biotechnology

Boston has been and remains one of the largest centers in the U.S. for the biotechnology industry, continuing to lead the industry within the region. The existence of a high technology work force and the medical and higher education facilities and personnel in the Boston Service Area make it one of the most desirable locations in the U.S. for the biotechnology industry. Unfortunately, for the top 20 companies in this industry, total employment in this sector for the region has decreased 20 percent in the last two years. The list of the top 20 employers in the State is presented in Exhibit 3-11.

Exhibit 3-11: Largest Biotechnology Firms in the Boston Service Area in 2006

Rank	Company	Focus	Mass Employees
1	Genzyme	Biotechnology	3,671
2	Wyeth	Pharmaceuticals	2,800
3	Millipore	Bioscience	1,425
4	Biogen	Biotechnology, nuerology, immunology	1,380
5	Millennium	Drug discovery and development	1,000
6	Vertex	Biotechnology	680
7	Sepracor	Pharmaceuticals	504
8	Alkermes	Biotechnology	450
9	Serono	Biotechnology	450
10	Abt Associates	Contract research	434
11	Cytyc	Diagnostics for cervical cancer	428
12	Shire Pharmaceuticals	Pharmaceuticals	390
13	ArQule	Oncology	265
14	Cubist Pharmaceuticals	Biotechnology	242
15	Acambis	Developing vaccines	230
16	Abiomed	Medical devices for a failing heart	200
17	BD Biosciences	Pharmaceuticals	196
18	ImmunoGen	Biotechnology	172
19	Dyax	Biopharmaceuticals and biotherapeutics	158
20	Idenix Pharmaceuticals	Pharmaceuticals	153

Source: Book of Lists 2007

3.3.3 Health Care Services

Boston has an excellent reputation as a leader in the health care arena given the well-known hospitals located in the Boston region. Also, the large number of health care services is a driver of other health care related industries. For example, a synergistic benefit of the research conducted at Boston's teaching hospitals is the substantial growth and economic development in the form of new jobs that are created in the biotechnology sector. As shown in Exhibit 3-12, there are many nationally recognized hospitals located in the Boston area.

Exhibit 3-12: Largest Hospitals in the Boston Area (based on 2005 Revenues)

Rank	Hospitals	2005 Revenues (Millions)	Full Time Employees
1	Massachusetts General Hospital	$1,322	20,477
2	Brigham and Women's Hospital	$1,064	13,000
3	Boston Medical Center	$918	4,338
4	Umass Memorial Medical Center	$796	5,880
5	Beth Israel Deaconess Medical Center	$741	5,636
6	Children's Hospital	$660	4,745
7	Lahey Clinic Medical Center	$486	3,953
8	Southcoast Hospitals Group	$481	3,913
9	Tufts/New England Medical Center	$420	5,605
10	Caritas St. Elizabeth's	$323	1,406
11	Cambridge Health Alliance	$321	3,254
12	North Shore Medical Center	$309	1,913
13	Cape Cod Hospital	$305	1,700
14	South Shore Hospital	$283	2,176
15	Dana-Farber Cancer Institute	$240	2,719
16	Northeast Hospital	$225	2,193
17	Hallmark Health System	$222	3,122
18	Newton-Wellesley Hospital	$219	1,076
19	Mount Auburn Hospital	$206	1,553
20	Winchester Hospital	$191	1,581

Source: Book of Lists 2007

Boston's medical institutions perform a wide variety of activities, including medical education, training and research, as well as the provision of medical services. Employment in the health care industry expanded rapidly in the late 1980s and early 1990s but has slowed considerably since 1995, as many area hospitals faced increasing cost pressures and mergers. However, even as other sectors have experienced job losses since 2000, health care employment has continued to grow, providing a counter-balance to other parts of the region's economy. The top 20 hospitals in the region employ over 90,000 full-time employees in 2006.

3.3.4 Financial Services

The Boston area has always had a reputation for a being a leader in the financial services industry. A substantial number of mutual fund companies, hedge funds, venture capital firms, wealth management and financial advisory companies are based in Boston (Exhibit 3-13). Companies such as Fidelity, Putnam, Wellington and MFS are among the largest mutual fund companies in the U.S.

Exhibit 3-13: Largest Mutual Fund Management Companies in the Boston Area, by Mutual Asset Size (2005)

Rank	Company	2005 Mutual Fund Assets (Millions)	Number of Funds
1	Fidelity	$1,046,100	379
2	Columbia Management	$215,315	105
3	Wellington Management	$152,272	20
4	Putnam Investments	$104,047	100
5	MFS Investment	$82,647	101
6	Grantham, Mayo, Van Otterloo	$58,825	73
7	State Street Global Advisors	$50,766	26
8	Pioneer Investment	$33,497	168
9	Eaton Vance	$29,860	102
10	MassMutual Life Insurance	$19,794	NA
11	John Hancock	$19,473	29
12	Loomis Sayles	$10,506	12
13	IXIS Asset Advisors	$7,152	22
14	Capital Growth Management	$3,614	4
15	Investors Bank & Trust	$3,083	15
16	Northeast Management	$1,431	2
17	Century Capital	$1,364	4
18	Standish Mellon Asset	$946	NA
19	Boston Partners	$643	10
20	Quantitative Advisors	$599	8

Source: Book of Lists 2007

The number of employees involved in financial services in the Boston Service Area more than doubled over the 1990-2000 period, growing to over 54,000 employees. However, there have been several mergers in the financial services industry impacting Boston companies. For example, Bank of Boston and Fleet merged in 1996 followed by Bank of America's acquisition of the new FleetBoston Financial Corp in 2004. Further, Manulife (insurance) bought John Hancock in 2004. Each of these mergers eliminated jobs in the Boston area, although it is difficult to quantify the exact numbers since many of these companies are private.

3.3.5 Higher Education

Boston is the home of some of the nation's and world's most prestigious colleges and universities. These institutions attract undergraduate and graduate students from across the country and around the world. There are over 60 colleges and universities in the Boston area with a total enrollment of 250,000 students (Exhibit 3-14).

Exhibit 3-14: Largest Colleges and Universities in the Boston Area, Ranked by Number of Students (2006)

Rank	Company	Full Time Enrollment	Part Time Enrollment	Total Enrollment
1	Boston University	25,396	5,561	30,957
2	U of Massachusetts (Amherst)	20,197	4,896	25,093
3	Northeastern University	17,611	4,993	22,604
4	Harvard University	18,591	1,253	19,844
5	Boston College	11,483	2,272	13,755
6	U of Massachusetts (Boston)	8,529	3,333	11,862
7	U of Massachusetts (Lowell)	6,403	4,263	10,666
8	Massachusetts Institute of Technology	9,879	327	10,206
9	Tufts University	8,814	924	9,738
10	Bridgewater State College	6,758	2,891	9,649
11	Salem State College	5,781	3,028	8,809
12	Lesley University	2,047	6,162	8,209
13	Middlesex Community College	3,466	4,624	8,090
14	Suffolk University	5,495	2,427	7,922
15	Bunker Hill Community College	2,384	5,455	7,839
16	U of Massachusetts (Dartmouth)	6,519	1,062	7,581
17	Bristol Community College	3,098	3,775	6,873
18	North Shore Community College	2,764	3,840	6,604
19	Northern Essex Community College	2,300	3,840	6,140
20	Holyoke Community College	3,076	3,189	6,265

Source: Book of Lists 2007

These institutions play an important role in the regional economy not only by attracting a large number of highly skilled workers to Boston, but also by spawning important scientific research and industry developments. For example, a significant portion of the growth in high technology, biotechnology, financial services and health care is a direct product of the graduates and research produced by the Boston area's universities. These well-known universities also provide a continuous supply of well-educated and capable workers for Boston's economy.

3.3.6 Tourism and Related Industries

Boston attracted 17.6 million visitors in 2005 (an increase of 5.5 percent over 2004) with 61 percent classified as leisure travelers and 39.0 percent as business travelers. In 2005, an estimated 5.0 percent of visitors were international travelers; however this does not include Canadian and Mexican visitors. The total direct and indirect economic and tax spending by visitors represented $9.8 billion in 2005, an increase of 24.0 percent compared to the prior year. In fact, the average visitor spends $160 per day (including hotel) and stays an average of 2.3 days. A convention delegate, however, spends significantly more, with an average daily spend of $368 for an

average visit of 3.3 days, demonstrating the importance of revenue derived from conventions.[8]

Employment related to direct visitor expenditures was estimated at 125,300 jobs in 2005 with an annual payroll of $3.2 billion. This economic impact can be seen in Exhibit 3-15 which summarizes the economic impact of visitors to Massachusetts from 2000-2004.

Exhibit 3-15: Economic Impact of Travel to Massachusetts (2000 to 2004)

	Expenditures		Payroll		Employment	
Year	($ Millions)	% Chg	($ Millions)	% Chg	Employees	% Chg.
2004	$12,407	10.8%	$3,245	3.4%	125,300	0.4%
2003	$11,199	-0.5%	$3,137	0.4%	124,800	-1.5%
2002	$11,258	-5.3%	$3,125	-3.6%	126,700	-4.1%
2001	$11,883	-11.0%	$3,241	-1.8%	132,100	-2.4%
2000	$13,352	7.8%	$3,299	N/A	135,300	N/A

Source: Massachusetts Office of Travel & Tourism

3.4 BOSTON AREA SOCIOECONOMIC TRENDS

3.4.1 Population

Massachusetts is a heavily populated state with only Rhode Island and New Jersey having a greater population density[9]. Over the last twenty-five years, Boston's population has grown at roughly the same rate as Massachusetts and New England but slower than the U.S. as a whole (see Exhibit 3-16). Boston experienced its largest growth spurt between 1995-2000, coinciding with the city's increased employment and economic expansion during that time frame. In the last six years, Boston's population growth rate has grown at the same rate as that of Massachusetts, trailing both the New England and U.S. average growth rates. The 2006 population statistics are estimated based upon NPA Data Services Inc.[10], a Washington-based economic research, forecasting and data services firm that specializes in developing long-term historical and projected economic and demographic information derived from U.S. Census data.

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[8] Greater Boston Convention & Visitors Bureau, Boston Tourism Statistics, April 2007.
[9] Massachusetts State Data Center (Mass SDC, January 2007).
[10] NPA Data Services Inc. is an established economic research firm which is relied on by the Office of Management and Budget, the Federal Reserve Bank, and other state and municipal government planners.

Exhibit 3-16: Regional and National Population Growth (1980 – 2006E)

	Historical				Estimated
	1980	1990	1995	2000	2006
Population (in 000s)					
Boston Area	4,793.0	5,004.1	5,105.7	5,298.5	5,353.4
Massachusetts	5,748.4	6,022.6	6,141.5	6,361.7	6,436.5
New England	12,377.3	13,229.5	13,472.6	13,951.8	14,323.5
Total US	227,226.4	249,624.3	266,279.7	282,208.5	299,514.1
Boston NECMA Population as a Percent of:					
% of Massachusets	83.4%	83.1%	83.1%	83.3%	83.2%
% of New England	38.7%	37.8%	37.9%	38.0%	37.4%
% of US Total	2.1%	2.0%	1.9%	1.9%	1.8%
Average Annual Growth	**26 Years '80-'06**	**10 Years '90-''00**	**5 Years '90-'95**	**5 Years '95-'00**	**6 Years '00-'06**
Boston Area	0.4%	0.6%	0.4%	0.7%	0.2%
Massachusetts	0.4%	0.5%	0.4%	0.7%	0.2%
New England	0.6%	0.5%	0.4%	0.7%	0.4%
Total US	1.1%	1.2%	1.3%	1.2%	1.0%

Note: the Boston Service Area includes Bristol, Essex, Middlesex, Norfolk, Plymouth, Suffolk and Worcester Counties; 2006 numbers are estimates.

Source: NPA DATA SERVICES, INC.

The forecast population for Boston Service Area through 2020 implies an average annual growth rate of 0.2 percent for the next 14 years, which is comparable to Massachusetts, and slightly lower than the growth rates projected for New England and the U.S. as a whole (see Exhibit 3-17). The U.S. growth rate is projected at one percent annually through 2020. Since the Boston Service Area is a mature, high density population region, it stands to reason that the growth rate for the region would be slower than the national average.

Exhibit 3-17: Regional and National Population Growth (2000 – 2020)

	Historical 2000	Estimated 2006	Forecasted 2010	2020
Population (in 000s)				
Boston Area	5,298.5	5,353.4	5,392.4	5,536.8
Massachusetts	6,361.7	6,436.5	6,493.3	6,687.3
New England	13,951.8	14,323.5	14,516.5	15,086.1
Total US	282,208.5	299,514.1	311,647.7	344,608.8
Boston NECMA Population as a Percent of:				
% of Massachusets	83.3%	83.2%	83.0%	82.8%
% of New England	38.0%	37.4%	37.1%	36.7%
% of US Total	1.9%	1.8%	1.7%	1.6%
Average Annual Growth	**6 Years '00-'06**	**4 Years '06-'10**	**10 Years '10-'20**	**20 Years '00-'20**
Boston Area	0.2%	0.2%	0.3%	0.2%
Massachusetts	0.2%	0.2%	0.3%	0.2%
New England	0.4%	0.3%	0.4%	0.4%
Total US	1.0%	1.0%	1.0%	1.0%

Note: Boston area includes Bristol, Essex, Middlesex, Norfolk, Plymouth, Suffolk and Worcester Counties; 2006 numbers are estimates

Source: NPA DATA SERVICES, INC.

3.4.2 Personal Income and Per Capita Income

Per capita income levels have consistently been higher in Massachusetts when compared to the New England region and the rest of the U.S. As shown in Exhibit 3-18, between 1980-2000, real personal income in the Boston Service Area increased at the average rate of 3.8 percent per year and real per capita income rose at 3.1 percent per year. These growth rates exceeded the corresponding national growth rates of 3.1 percent and 2.0 percent, respectively, and were also above the New England region's growth rates. Massachusetts had higher than average per capita income in 1982-1988 and then declined from 1989-1991. Levels again increased in Massachusetts from 1994-1997 at a rate faster than the national average. In 2000, Massachusetts reached its highest per capita income growth in 16 years. From 2000 to 2003 real per capita income declined both in Massachusetts and in the U.S., although the Massachusetts per capita income levels declined at a steeper rate, implying that the recession impacted Massachusetts to a greater extent than the rest of the U.S. Despite this, Massachusetts was able to maintain a higher average per capita income than the national average. And in 2004 and 2005 Massachusetts per capita income grew faster than in the U.S. In 2006, Boston's per capita income is estimated at $43,392, which is higher than in Massachusetts, New England and the

U.S. In fact, in 2006, Boston's per capita income is projected to be 32.0 percent higher than the U.S. average.

Exhibit 3-18: Regional and National Income Growth (1980 – 2006E)

	Historical				Estimated
	1980	1990	1995	2000	2006
Total Income					
Boston Area	$100,729	$148,855	$159,220	$209,252	$232,295
Massachusetts	$118,741	$174,482	$185,675	$240,847	$269,019
New England	$256,336	$377,919	$397,769	$502,670	$575,179
Total US	$4,479,993	$6,098,763	$6,761,254	$8,361,363	$9,870,560
% of Massachusets	84.8%	85.3%	85.8%	86.9%	86.3%
% of New England	39.3%	39.4%	40.0%	41.6%	40.4%
% of US Total	2.2%	2.4%	2.4%	2.5%	2.4%
Average Annual Growth	**20 Years '80-'00**	**10 Years '90-'00**	**5 Years '90-'95**	**5 Years '95-'00**	**6 Years '00-'06**
Boston Area	3.7%	3.5%	1.4%	5.6%	1.8%
Massachusetts	3.6%	3.3%	1.3%	5.3%	1.9%
New England	3.4%	2.9%	1.0%	4.8%	2.3%
Total US	3.2%	3.2%	2.1%	4.3%	2.8%
Per Capita Income					
Boston Area	$21,016	$29,747	$31,185	$39,493	$43,392
Massachusetts	$20,656	$28,971	$30,233	$37,859	$41,796
New England	$20,710	$28,566	$29,524	$36,029	$40,156
Total US	$19,716	$24,432	$25,392	$29,628	$32,955
% of Massachusets	101.7%	102.7%	103.1%	104.3%	103.8%
% of New England	101.5%	104.1%	105.6%	109.6%	108.1%
% of US Total	106.6%	121.8%	122.8%	133.3%	131.7%
Average Annual Growth	**26 Years '80-'06**	**10 Years '90-'00**	**5 Years '90-'95**	**5 Years '95-'00**	**6 Years '00-'06**
Boston Area	2.8%	2.9%	0.9%	4.8%	1.6%
Massachusetts	2.7%	2.7%	0.9%	4.6%	1.7%
New England	2.6%	2.3%	0.7%	4.1%	1.8%
Total US	2.0%	1.9%	0.8%	3.1%	1.8%

Note: the Boston Service Area includes Bristol, Essex, Middlesex, Norfolk, Plymouth, Suffolk and Worcester Counties; 2006 numbers are estimates

Source: NPA DATA SERVICES, INC.

The growth rate of per capita income for the Boston Service Area is projected to be 1.8 percent, on average, each year from 2010 to 2020, resulting in an average of 2.0 percent growth each year from 2000 to 2020 (including years of higher growth previously experienced). This growth is on par with Massachusetts and New England and slightly above the U.S. The projected growth rates imply that the Boston Service Area economy will continue to grow with income increasing over the next fourteen years at a faster pace than the last six years (Exhibit 3-19).

Exhibit 3-19: Regional and National Income Growth (2000 - 2020)

	Historical 2000	Estimated 2006	Forecasted 2010	Forecasted 2020
Total Income				
Boston Area	$209,252	$232,295	$266,860	$327,106
Massachusetts	$240,847	$269,019	$308,957	$378,511
New England	$502,670	$575,179	$662,748	$816,485
Total US	$8,361,363	$9,870,560	$11,575,076	$14,907,226
% of Massachusets	86.9%	86.3%	86.4%	86.4%
% of New England	41.6%	40.4%	40.3%	40.1%
% of US Total	2.5%	2.4%	2.3%	2.2%
Average Annual Growth	**6 Years '00-'06**	**4 Years '06-'10**	**10 Years '10-'20**	**20 Years '00-'20**
Boston Area	1.8%	3.5%	2.1%	2.3%
Massachusetts	1.9%	3.5%	2.1%	2.3%
New England	2.3%	3.6%	2.1%	2.5%
Total US	2.8%	4.1%	2.6%	2.9%
Per Capita Income				
Boston Area	$39,493	$43,392	$49,489	$59,079
Massachusetts	$37,859	$41,796	$47,581	$56,601
New England	$36,029	$40,156	$45,655	$54,122
Total US	$29,628	$32,955	$37,142	$43,258
% of Massachusets	104.3%	103.8%	104.0%	104.4%
% of New England	109.6%	108.1%	108.4%	109.2%
% of US Total	133.3%	131.7%	133.2%	136.6%
Average Annual Growth	**6 Years '00-'06**	**4 Years '06-'10**	**10 Years '10-'20**	**20 Years '00-'20**
Boston Area	1.6%	3.3%	1.8%	2.0%
Massachusetts	1.7%	3.3%	1.8%	2.0%
New England	1.8%	3.3%	1.7%	2.1%
Total US	1.8%	3.0%	1.5%	1.9%

Note: the Boston Service Area includes Bristol, Essex, Middlesex, Norfolk, Plymouth, Suffolk and Worcester Counties; 2006 numbers are estimates

Source: NPA DATA SERVICES, INC.

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4 AIRPORT PASSENGER AND AIR SERVICE TRENDS

4.1 INTRODUCTION

Over the past 35 years, passenger traffic at Boston Logan Airport has more than tripled, which is the result of strong economic and population growth in the Boston Service Area described in Chapter 3.

Logan has endured periods of fluctuating passenger levels during its long history. Particularly after 9/11 and for the years immediately following, Logan experienced a major drop in both passengers and operations, similar to other airports around the country. However, the Airport has recovered, showing consistent growth and a return to constant passenger growth in recent years. In recent years, Logan has also seen a surge in low cost carrier service, predominantly due to jetBlue's rapid increase in service since the carrier initiated service at Logan in 2004, as well as AirTran's continued growth at the Airport.

Logan has also witnessed a dramatic shift in aircraft type over the past decade as airlines have introduced regional jet aircraft into this market, and replaced most of the turboprop aircraft activity. Logan's role as a regional hub to New England and upstate New York markets has lessened as carriers have employed regional jet service from these points direct to airline hubs. This shift in Logan's service pattern, plus increases in carrier load factors has resulted in an increase in the number of passengers per operation, particularly over the past two years. While the number of passengers per operation averaged 55 through most of the 1990s, the average has jumped to over 70 passengers per aircraft departure in 2006.

This section reviews recent and long-term passenger, aircraft activity, and airline service trends at Logan.

4.2 AIRLINE PASSENGERS

4.2.1 Total Passengers

Logan experienced passenger growth for the last three years, reaching 27.6 million passengers in calendar year 2006. The historical enplaned and deplaned passenger traffic from CY 1970 to CY 2006 is shown in Exhibit 4-1. After a significant drop in passengers during 2001 – 2003 due to 9/11, Logan has experienced a rebound in passengers since 2004. Excluding General Aviation passengers, Logan handled 26.0 million passengers in 2004, 26.9 million in 2005 and reached 27.6 million in 2006. Logan has fully recovered from the events of 9/11 and the economic downturn which followed. Passenger traffic at Logan in 2006 is slightly ahead of what was achieved in 2000. Economic recovery within the region, reinstatement of service, expansion of low cost carrier service and reduction in airfares have all been contributing factors in the traffic growth over the last several years.

As presented in Exhibit 4-1, Logan achieved positive traffic growth between 1970 and 2000, although the rate of passenger growth slowed over time, reflecting market maturation. Whereas Logan's passenger traffic increased at an average annual rate of 4.5 percent during the 1970s, this growth slowed to 4.2 percent per annum in the 1980s and to 2.0 percent during the 1990s. In the last six years, the average annual growth rate was flat reflecting the drop and then recovery of passenger traffic after the events of 9/11.

Exhibit 4-1 also shows that Logan's total passenger traffic has increased each decade, but the Airport has experienced periodic declines, largely in response to changes in the business cycle and short-term service disruptions. In the past, negative changes in passenger traffic ranged from 3.0 to 4.0 percent, experienced for periods of roughly 2 to 3 years, representing the span of a particular business cycle. However, the magnitude of the traffic decline at Logan after 9/11 was unprecedented, and reflected a combination of a down economic cycle that dampened business travel demand, the unusual circumstances of 9/11, and substantial capacity reductions as airlines attempted to stabilize their business models. At the same time, Logan's performance post-9/11 was not unique as airports across the country experienced similar downturns in traffic.

Exhibit 4-1: Historical Airline Passenger Traffic at Boston Logan International Airport (CY 1970 – CY 2006)

	Enplaned plus Deplaned Passengers			
Year	Domestic Large Jet	Domestic Regional	International	Total
1970	8,202,821	273,398	916,406	9,392,625
1980	12,095,854	467,903	2,158,606	14,722,363
1990	17,968,410	1,486,713	3,358,944	22,814,067
1995	18,596,719	2,035,266	3,475,753	24,107,738
2000	20,923,802	2,176,843	4,513,192	27,613,837
2001	17,807,384	2,262,655	4,301,250	24,371,289
2002	16,589,407	2,136,015	3,882,257	22,607,679
2003	16,790,349	2,099,730	3,815,987	22,706,066
2004	19,247,042	2,583,252	4,201,638	26,031,932
2005	20,060,081	2,637,396	4,237,105	26,934,582
2006	20,839,226	2,692,863	4,049,595	27,581,684
Average Annual Growth				
1970-80	4.0%	5.5%	8.9%	4.6%
1980-90	4.0%	12.3%	4.5%	4.5%
1990-00	1.5%	3.9%	3.0%	1.9%
1995-00	2.4%	1.4%	5.4%	2.8%
2000-06	-0.1%	3.6%	-1.8%	0.0%
Percent Change Over Prior Year				
2001	-14.9%	3.9%	-4.7%	-11.7%
2002	-6.8%	-5.6%	-9.7%	-7.2%
2003	1.2%	-1.7%	-1.7%	0.4%
2004	14.6%	23.0%	10.1%	14.6%
2005	4.2%	2.1%	0.8%	3.5%
2006	3.9%	2.1%	-4.4%	2.4%

Source: Massport

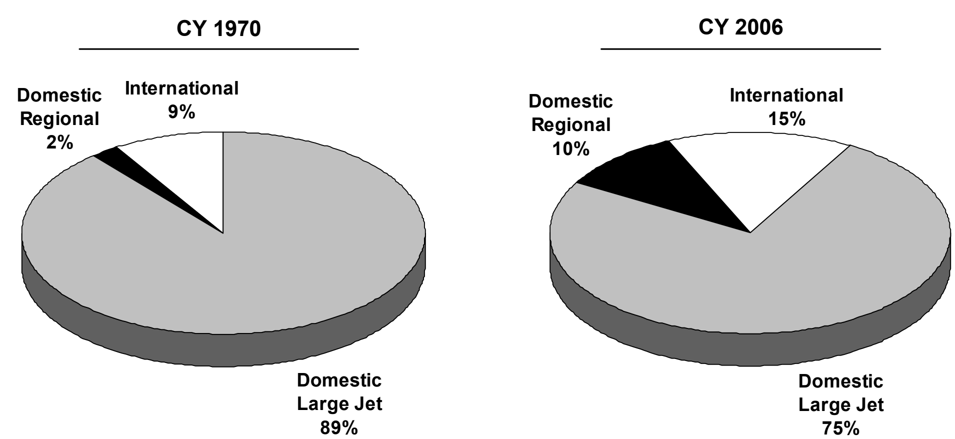
4.2.2 Market Segments at Logan Airport

Historically, Logan has supported three major market segments: domestic large jet services, domestic regional carrier services and international services. The domestic large jet and international segments have principally supported local O&D passengers, while regional carrier services have historically served to feed passengers from small New England and upstate New York markets to Logan Airport for connecting services to other destinations. However, since 2001, as regional carriers

have accepted large deliveries of new regional jets[11] ("RJs"), mainline airlines have increasingly deployed regional jets at Logan to serve medium-haul, low-density O&D markets.

For CY 2006, the domestic regional jet segment accounted for 10.0 percent of total airport passengers, up from 2 percent in 1970. Over that same period, large jet market share dropped to 76 percent, down from nearly 90 percent in CY 1970 as shown in Exhibit 4-2. The share of Airport passengers traveling to/from international markets increased over time from 9.0 percent in CY 1970 to 15.0 percent in CY 2006. Historic growth trends in each of these segments are discussed in the following sections.

Exhibit 4-2: Logan Passenger Traffic by Major Market Segment (CY 1970 & CY 2006)



Note: Excludes General Aviation Passengers

Source: Massport

[11] Regional jets are small jet powered aircraft with 100 or fewer seats. The US regional airline fleet consists of regional jets with 32 to 100 seats. Regional jets operate at higher speeds and can fly longer stage lengths than turboprops. The operating range for a typical regional jet is 800 to 1,000 miles, compared to 400 miles for a turboprop.

Domestic Large Jet

Logan's domestic large jet[12] passenger traffic reached a peak of 21.0 million in CY 2000, before falling to 16.6 million during CY 2002. This segment stabilized in CY 2003 but has rebounded dramatically since then. Domestic large jet passenger traffic increased by 14.6 percent during CY 2004, 4.2 percent during CY 2005 and another 3.9 percent between 2005-2006. Traffic volume for CY 2006 in this segment has reached 20.8 million passengers, almost reaching Logan's high of 21.0 million passengers from the peak year of CY 2000.

Historically, domestic mainline passenger traffic at Logan has grown more slowly than both regional carrier and international traffic. Domestic jet traffic increased at annual rates of 4.0 percent during the 1970s and 4.0 percent during the 1980s. Exceptionally strong growth of 8.7 percent per year occurred between 1982 and 1987, when the regional and national economies were expanding and low-fare carriers such as People Express were operating at Logan Airport.

Logan's domestic large jet passenger traffic reached a then peak level of 19.4 million in FY 1987 and then declined each year through FY 1992 falling to 16.6 million. Domestic passenger growth resumed in FY 1993 and fully recovered, reaching 19.4 million again in FY 1997. A combination of regional and industry-wide events were largely responsible for the domestic large jet traffic declines at Logan Airport during this period. First, several airlines serving Logan were affected by the wave of industry consolidation that occurred: US Airways and Piedmont Airlines merged; Continental Airlines' parent company, Texas Air, acquired People Express and New York Air; and both Eastern Airlines and Pan Am entered bankruptcy and ceased operations. The industry consolidation led to higher airfares, which depressed traffic growth. At the same time, the 1990-91 economic recession, which was felt more severely and lasted longer in New England than in the rest of the U.S., coincided with the Gulf War and further weakened air travel demand.

Logan's domestic large jet traffic resumed its growth as the economy recovered and increased every year from FY 1993 to FY 2000. In addition to the strength of the local and national economies in the mid to late 1990s, Logan's mainline traffic growth was also fueled by competition among mainline carriers for Boston market share. During the mid to late 1990s, American, Delta and United each sought to increase their presence in the Boston market and challenged US Airways' dominance

[12] Domestic large jet refers to certificated air carriers that operate narrowbody and/or widebody aircraft, generally with more than 100 seats.

by expanding their Logan services, especially in long-haul markets. By 2000, these carriers offered hourly flights to their main connecting hubs, as well as nonstop service to West Coast destinations and/or expanded service to short-haul business markets. The increasing competition among the mainline carriers contributed to growth in domestic jet passenger traffic at Logan.

After the events of 9/11, the market experienced a significant shock. Airlines reduced services and restructured their operations to solidify their base and determine how best to grow going forward. Over the past two years, growth in the domestic large jet segment has come mainly from expansion of the LCCs at the Airport. The rise of the LCCs and the implication of this trend were analyzed in Chapter 2 of this report.

4.2.3 Domestic Regional

Logan accommodated 2.7 million domestic regional carrier[13] passengers in CY 2006, the largest level of regional carrier activity at the Airport ever. CY 2005 was also a strong year for domestic regional traffic at Logan with 2.6 million passengers, representing a 2.1% increase from CY 2005 to CY 2006. Domestic regional passenger traffic has historically been the fastest growing segment of Logan's passenger traffic since the 1970s. The trends at Logan over the past several years mirror an industry-wide shift by domestic airlines to transfer flying to regional carrier affiliates, using regional jets to replace mainline jets on routes that the mainline carriers could not operate profitably. Airlines are becoming more sophisticated in using the most appropriate aircraft for their routes. Today Therefore, they are shifting to smaller aircraft (regional jets) which they can better fill with passengers than a large mainline aircraft.

From CY 1970 to CY 2000, domestic regional passenger traffic at Logan grew at an average annual rate of 7.2 percent. During the 1970s regional traffic growth averaged 5.5 percent increasing to 12.3 percent annual growth during the 1980s. During the 1990s, regional passenger growth slowed to 3.9 percent per year, but still remained stronger than domestic large jet growth, which averaged 1.5 percent over the same period.

The significant long-term growth in regional carrier passenger traffic at Logan is attributable to several factors. First, passenger demand in the short-haul Northeast O&D markets increased substantially during the 1980s as the New England economy

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[13] Regional carrier includes airlines that operate turboprop or regional jet aircraft.

prospered. Second, as mainline carriers developed affiliate and code share relationships with regional carriers to gain market share in an increasingly competitive industry, it became more efficient for airlines to serve passengers from low-density Northern New England markets on a connecting basis through Logan Airport. Because of the lack of a single dominant carrier at Logan Airport, there was a proliferation of such code share agreements between major airlines and northeast regional carriers serving Logan during the late 1980s. (Fewer regional carriers typically serve airports that are dominated by a single hub carrier.)

More recently, many airlines have transferred a number of marginal jet routes to their regional carrier partners. While initially marginal routes were transferred to regional carriers and operated with turboprops, the transfer of routes accelerated with the widespread introduction of regional jets, which operate at higher speeds, serve longer distances and tend to be preferred by passengers over turboprops. At Logan, as described, mainline carriers also began to use regional jets provided by regional carrier affiliates to expand into new markets while some carriers have used regional jets to gain a foothold in markets already served by competitors. An example of this is American Eagle's service in the Boston-New York LaGuardia shuttle market with 8 daily RJ roundtrips to compete against the US Airways Shuttle and Delta Shuttle. Regional jets allow mainline carriers to expand into new markets or smaller markets with reduced risk. A regional jet is able to provide service to smaller markets and achieve two objectives: providing previous nonexistent nonstop service to a large hub airport and secondly, feeding passengers into a mainline carriers' larger hub of service.

4.2.4 International

Logan's international passenger traffic, including travel to and from Canada, reached an all-time high of 4.5 million passengers in CY 2000. During the following three years international passenger traffic declined by almost 20 percent and remained flat until 2003. International traffic declined steadily during the two years after 9/11, from 4.3 million in CY 2001 to 3.9 million in CY 2002 and 3.8 million in CY 2003, reflecting instability in the global environment (including events such as the war in Iraq, SARS, and global terrorism). In CY 2004, international traffic rebounded to 4.2 million passengers, an increase of 10.1 percent. CY 2005 saw a slight increase of 0.8 percent for international passengers; however, there was a downturn of 4.4 percent in CY 2006 with passenger numbers declining to 4.1 million. The majority of the decrease in CY 2006 occurred in services between Logan and Canadian destinations.

Logan Airport, with its strategic location in the Northeast U.S., is a natural gateway for travel between the United States and Europe. During the 1970s, when new jet aircraft technologies expanded capabilities for transoceanic flights, total international traffic at Logan grew at an average annual rate of nearly 10 percent. Growth moderated to 4.5 percent per year over the next decade. During the early to mid 1980s international traffic growth was spurred primarily by increased demand rather than significant service expansion. In 1988, Northwest Airlines established a transatlantic hub at Logan Airport by adding new service to several major European destinations including Amsterdam and Frankfurt. In that year the Airport realized a net gain of more than 370,000 international passengers, which represents a 10 percent increase.

International passenger traffic declined in 1991 because of service disruptions related to the Gulf War and weak demand resulting from terrorist threats and the shrinking economy. After CY 1991, international traffic increased to a then record 3.7 million passengers in CY 1994. At the end of 1994, after forming a code-sharing alliance with KLM Royal Dutch Airlines, Northwest reduced its international services from Boston, which negatively affected Logan's international traffic levels in 1995 and 1996. During these years Logan also lost scheduled air services operated by Air France and TAP Air Portugal due to financial difficulties at both airlines.

Northwest's decision to reduce transatlantic services at Logan had only a short-term impact on Logan's international traffic levels. Several airlines, including American, British Airways, and US Airways, added new international services replacing most of the discontinued Northwest services.

By CY 1998, Logan's international traffic had fully recovered from the Northwest withdrawal, reaching 4.0 million passengers in that year. From CY 1998 to CY 2000, international traffic grew by 7 to 8 percent per year as U.S. carriers and their foreign flag alliance partners expanded services at Logan in order to gain market share. Over this period, several carriers including Air France, Swiss Air (now SWISS International) and Lufthansa added a second daily departure to their respective European connecting hubs. Today over 24 domestic and international carriers provide service from Logan to international locations.

Boston is currently the 11th largest U.S. gateway for international air travel based on YE September 2006 (Exhibit 4-3). The past ten years have shown a relatively steady growth in passengers. Logan averaged 2.1 percent annual growth between 1995 and YE September 2006, which was lower than the national average of 3.2 percent annual growth. Logan is also the second largest U.S. gateway airport (behind Honolulu) that

is not a major hub for a U.S. carrier. This standing is impressive for Logan because the Airport is not dependent on one carrier for international service, like many of the other U.S. gateways listed on the chart below.

Exhibit 4-3: Top U.S. Gateways for International Traffic (1996 to YE Sept 06)

2006 Passengers			Total Passengers			2006 Pct.	Avg. Annual Growth			
Ran	US Gateway		1995	2000	YE Sep 06	Share	90-95	95-00	00-06	90-06
1	New York	Hub	21,248,800	28,553,170	30,002,341	19.6%	1.2%	6.1%	0.8%	2.6%
2	Los Angeles	Hub	12,994,089	17,141,000	16,653,813	10.9%	7.6%	5.7%	-0.5%	3.9%
3	Miami	Hub	14,182,368	16,629,165	14,648,658	9.6%	7.5%	3.2%	-2.1%	2.5%
4	Chicago	Hub	6,586,260	10,185,201	11,506,931	7.5%	6.4%	9.1%	2.1%	5.6%
5	Atlanta	Hub	3,165,349	6,113,827	8,149,720	5.3%	11.5%	14.1%	4.9%	9.7%
6	San Francisco	Hub	5,605,021	7,860,756	8,047,261	5.3%	7.1%	7.0%	0.4%	4.5%
7	Houston	Hub	2,733,888	5,358,349	7,019,537	4.6%	4.5%	14.4%	4.6%	7.5%
8	Washington	Hub	2,756,920	3,895,917	5,413,520	3.5%	16.9%	7.2%	5.6%	9.5%
9	Dallas/Fort Worth	Hub	3,339,445	4,812,052	5,173,785	3.4%	4.5%	7.6%	1.2%	4.2%
10	Honolulu		6,004,172	5,150,635	4,158,885	2.7%	0.9%	-3.0%	-3.5%	-2.0%
11	Boston		3,044,502	4,057,619	3,806,540	2.5%	0.1%	5.9%	-1.1%	1.4%
12	Detroit	Hub	2,771,956	3,929,353	3,685,403	2.4%	13.7%	7.2%	-1.1%	6.0%
13	Philadelphia	Hub	1,118,948	2,553,962	3,536,940	2.3%	7.6%	17.9%	5.6%	10.0%
14	Guam		2,181,824	2,840,667	2,606,199	1.7%	10.0%	5.4%	-1.4%	4.2%
15	Minneapolis	Hub	1,368,271	2,875,171	2,447,241	1.6%	12.6%	16.0%	-2.7%	7.6%
16	Fort Lauderdale		909,220	1,174,940	2,375,592	1.6%	-0.3%	5.3%	12.4%	6.1%
17	Seattle		1,529,627	2,202,568	2,307,402	1.5%	-2.8%	7.6%	0.8%	1.7%
18	Orlando		2,009,682	2,353,796	2,083,379	1.4%	8.6%	3.2%	-2.0%	2.9%
19	San Juan		2,224,568	2,499,899	2,055,673	1.3%	1.9%	2.4%	-3.2%	0.1%
20	Charlotte	Hub	407,968	952,218	2,024,903	1.3%	14.0%	18.5%	13.4%	15.2%
	Sub Total: Top 20		**96,182,878**	**131,140,265**	**137,703,723**	**90.2%**	**5.1%**	**6.4%**	**0.8%**	**3.9%**
	Other		9,392,821	12,467,096	15,033,043	9.8%	-1.0%	5.8%	3.2%	2.7%
	Total US		**105,575,699**	**143,607,361**	**152,736,766**	**100.0%**	**4.5%**	**6.3%**	**1.0%**	**3.7%**

Source: T100 Database via Database Products

Looking at Logan's international activity from a different perspective, the Airport is ranked 13th in terms of international seats provided, based upon year ending September 2006 (Exhibit 4-4 below). Coincidentally, 13% of Logan's total seats provided in 2006 were international and 14% of its total passengers were international. Given that the Airport ranks 11th in terms of international passenger enplanements, this exceeds its "fair share" of international traffic, highlighting its strength as an international gateway.

Exhibit 4-4: Top 20 Airports Ranked by International Seats (CY 2006)

	Seats				Passengers			
	2004		2006		2004		2006	
Airport	Pct Domestic	Pct Int'l	Pct Domestic	Pct Int'l	Pct Domestic	Pct Int'l	Pct Domestic	Pct Int'l
11 Boston	**87%**	**13%**	**87%**	**13%**	**85%**	**15%**	**86%**	**14%**
1 Miami	49%	51%	50%	50%	51%	49%	53%	47%
2 New York J F Kennedy	54%	46%	53%	47%	54%	46%	55%	45%
3 Los Angeles	74%	26%	72%	28%	73%	27%	72%	28%
4 New York Newark	75%	25%	72%	28%	72%	28%	73%	27%
5 San Juan	76%	24%	76%	24%	81%	19%	81%	19%
6 San Francisco	79%	21%	76%	24%	77%	23%	75%	25%
7 Washington Dulles	81%	19%	77%	23%	79%	21%	77%	23%
8 Honolulu	75%	25%	80%	20%	77%	23%	79%	21%
9 Houston Intctl	82%	18%	81%	19%	82%	18%	83%	17%
10 Chicago O'Hare	87%	13%	84%	16%	86%	14%	85%	15%
11 Boston	87%	13%	87%	13%	85%	15%	86%	14%
12 Fort Lauderdale	91%	9%	87%	13%	92%	8%	89%	11%
13 Philadelphia	88%	12%	89%	11%	87%	13%	89%	11%
14 Atlanta	92%	8%	90%	10%	92%	8%	90%	10%
15 Detroit	91%	9%	90%	10%	90%	10%	90%	10%
16 Dallas/Fort Worth	92%	8%	91%	9%	92%	8%	91%	9%
17 Seattle/Tacoma	92%	8%	92%	8%	92%	8%	92%	8%
18 Charlotte	94%	6%	93%	7%	93%	7%	93%	7%
19 Minneapolis	94%	6%	93%	7%	93%	7%	93%	7%
20 Orlando	94%	6%	94%	6%	94%	6%	94%	6%

Note: International 2006 Passengers based on year end September 2006
Source: Official Airline Guide and T100 database

For 2007, the following carriers have announced or published services which will increase international activity at Logan and benefit the New England community.

- Iberia – announced year-round service commencing in May with five weekly flights to Madrid
- flyglobespan – announced seasonal service commencing in May with daily flights to Glasgow and twice weekly flights to Ireland West Knock
- Finnair – announced seasonal service commencing in June with thrice weekly flights to Helsinki with a stop in Stockholm
- Lufthansa – announced incremental seasonal service commencing in May with phased-in double daily flights to Frankfurt
- Yangtze River Express – started thrice weekly air cargo service between Boston and Shanghai in March

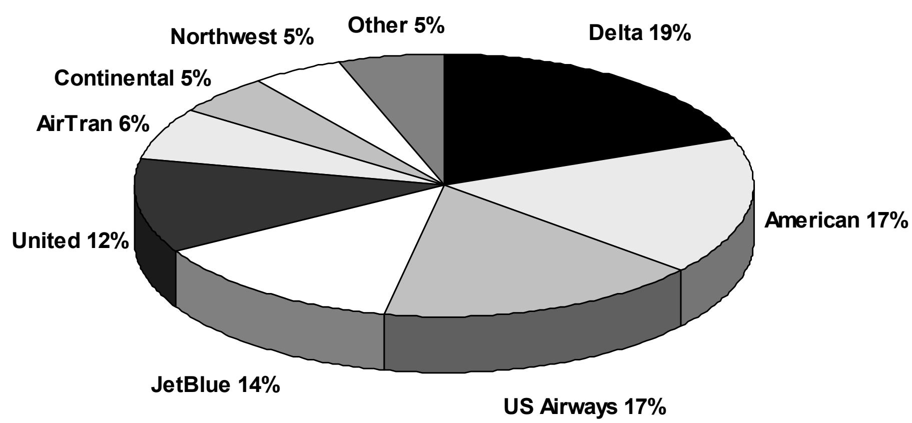
Another recent development that may bring added air service to Boston beginning in March of 2008, is the announcement that the U.S. and the EU have reached an agreement on Open Skies Legislation, permitting carriers to fly between any point in

the EU and any point in the U.S. This new legislation may create significantly expanded international operations at the Airport, though details are being finalized at this point. The new agreement is pending governing body approvals.

4.2.5 Airline Domestic and International Passenger Shares

Logan passenger traffic continues to be spread across multiple carriers. In CY 2006, Delta (including Delta, the Delta Shuttle, Comair and the Delta Connection) ranked number one in passenger market share with 19.0 percent (as shown in Exhibit 4-5). American Airlines (including American Eagle) ranked number two with 17.0 percent of the market. US Airways/America West (including US Airways Shuttle and US Airways Express), JetBlue and United followed, resulting in the top five carriers making up over 75.0 percent of the total market share at Logan. Interestingly, four of the top five carriers have remained the same since CY 2004 with JetBlue being the exception. JetBlue started service at Logan in 2004 and since then has grown to be the fourth largest domestic carrier.

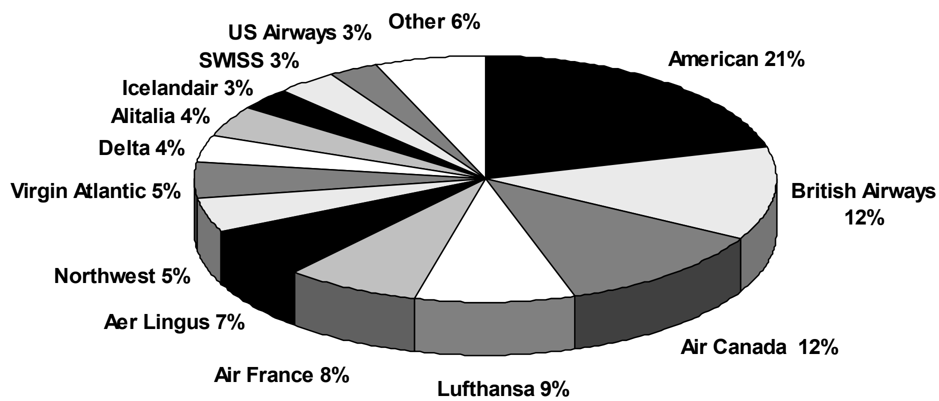
Exhibit 4-5: Airline Market Share of Logan Domestic Passengers (CY 2006)



Note: Regional airline passengers are grouped with their mainline carrier (except Chautaqua);
Excludes General Aviation passengers
Source: Massport

For international passengers, over 24 domestic and international airlines currently serve Logan. American leads with 21 percent of the market. British Airways closely followed by Air Canada (including Air Canada Jazz) each has 12 percent market share, making them the two largest foreign flag carriers operating at Logan. Lufthansa and Air France round out the top 5 carriers in terms of market share of international passengers. The breakdown of market share for international passengers can be seen in Exhibit 4-6.

Exhibit 4-6: Airline Market Share for International Passengers (CY 2006)



Note: : Regional airline passengers are grouped with their mainline carrier (except Chautaqua) ;
Exludes General Aviation passengers
Source: Massport

4.3 AIRCRAFT OPERATIONS

There were approximately 374,000 commercial operations (excluding General Aviation) at Logan during CY 2006 (Exhibit 4-7). The operations have remained stable since CY 2004 with little change for the last three years. Commercial aircraft movements reached a peak of 475,000 in CY 1998 when a number of airlines serving Boston expanded service, but operations fell steadily in subsequent years. Compared to Logan’s operations peak, total commercial operations have declined 21.0 percent in CY 2006 compared to CY 1998. The majority of the decline occurred with domestic regional aircraft and international aircraft. Interestingly, both of these categories had an increase in passenger traffic during the same time which supports the finding that aircraft size has been increasing and load factors have been rising.

Exhibit 4-7: Historical Aircraft Operations at Boston Logan Airport (1970 to 2006)

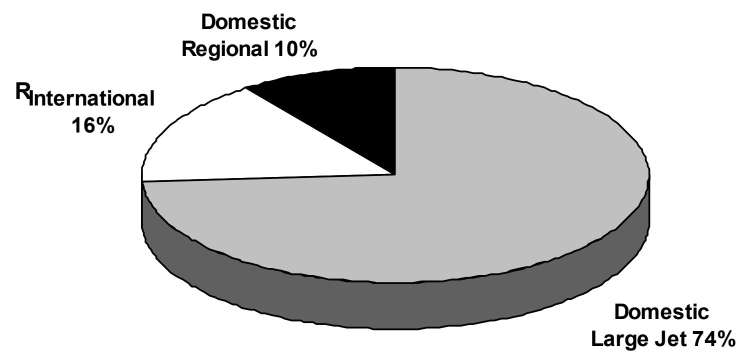
	Aircraft Takeoffs and Landings			
Calendar Year	**Domestic Large Jet**	**Domestic Regional**	**International**	**Total**
1970	189,192	37,800	17,599	244,591
1980	178,686	60,623	18,858	258,167
1990	223,955	144,179	31,458	399,592
1995	216,662	185,006	40758	442,426
2000	248,555	159,025	45,183	452,763
2001	223,778	164,643	45,965	434,386
2002	195,203	131,879	39,401	366,483
2003	173,671	132,778	38,195	344,644
2004	204,987	128,972	40,063	374,022
2005	204,760	132,169	38,697	375,626
2006	211,420	126,378	36,286	374,084
1970-80	-0.6%	4.8%	0.7%	0.5%
1980-90	2.3%	9.1%	5.3%	4.5%
1990-00	1.0%	1.0%	3.7%	1.3%
1995-00	-0.7%	5.1%	5.3%	2.1%
2000-06	-2.7%	-3.8%	-3.6%	-3.1%
Percent Change Over Prior Year				
2001	-10.0%	3.5%	1.7%	-4.1%
2002	-12.8%	-19.9%	-14.3%	-15.6%
2003	-11.0%	0.7%	-3.1%	-6.0%
2004	18.0%	-2.9%	4.9%	8.5%
2005	-0.1%	2.5%	-3.4%	0.4%
2006	3.3%	-4.4%	-6.2%	-0.4%

Note: Operations include arrivals and departures; operations exclude General Aviation activity
International operations includes scheduled and charter operations for U.S. certified, U.S. regional and foreign carriers
Source: Massport

Between 1970 and 2000, Logan's domestic regional carrier aircraft operations grew the fastest of all traffic segments, averaging increases of 4.9 percent annually. Over the same period, international aircraft operations grew at an average annual rate of 3.2 percent, while domestic large jet operations increased by 0.9 percent per year. Over the last 36 years domestic regional carrier operations grew at an average of 3.4 percent annually, followed by international aircraft operations growth of 2.0 percent annually while domestic large jet operations grew slowly with 0.3 percent average annual growth.

Regional carriers (operating RJs and turboprops) accounted for approximately 35.0 percent of passenger airline operations in CY 2006 (Exhibit 4-8), but only 10.0 percent of airport passengers.

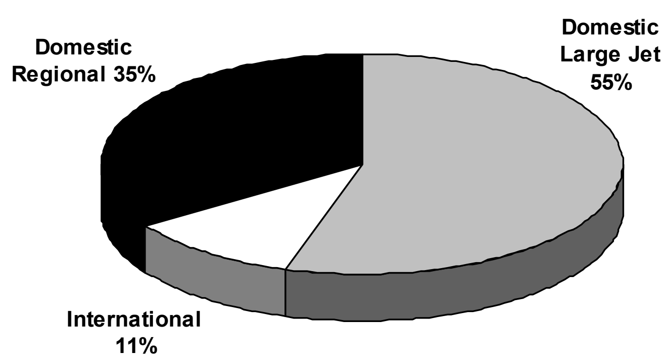
Exhibit 4-8: Aircraft Share of Operations at Logan (CY 2006)



Source: Massport

In the early 1990s, regional carriers accounted for as much as 43.0 percent of operations, but since then their share of operations has declined as regional carriers have moved away from turboprops (an average of 19 seats) and toward larger regional jets (an average of 57 seats) at Logan, allowing them to carry more passengers with fewer operations (Exhibit 4-9)

Exhibit 4-9: Aircraft Share of Passengers at Logan (CY2006)

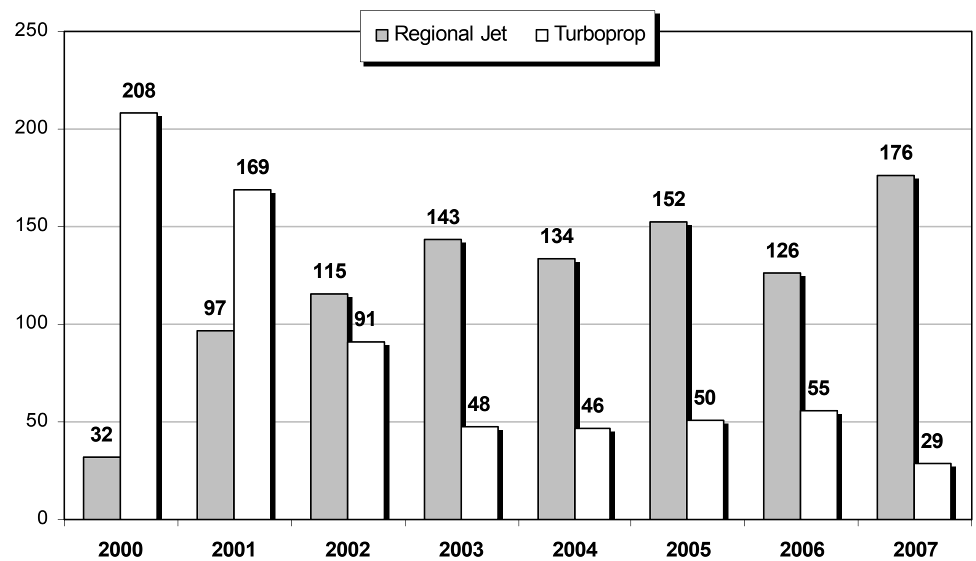


Source: Massport

Over the past five years, total regional carrier operations at Logan have declined as regional carriers have retired turboprops at a faster rate than they have added regional jets. As a result, the fleet mix of regional carriers mix at Logan has shifted dramatically from a fleet dominated by turboprops to one now dominated by RJs.

Since CY 2000, daily regional jet operations at Logan have increased by over 400 percent, from 32 operations daily in 2000 to 176 daily operations in CY 2006 as show in Exhibit 4-10. Over the same period, turboprop operations fell by 86.0 percent, from 208 to 29 daily operations. Following 9/11, regional carriers accelerated the retirement of their turboprop fleets. As a result, total regional carrier domestic operations were down by 24 percent in 2006 compared to 2000, according to the scheduled data from the OAG.

Exhibit 4-10: Daily Operations at Logan by Aircraft Class - Regional Jets and Turboprops (February 2000 – February 2007)



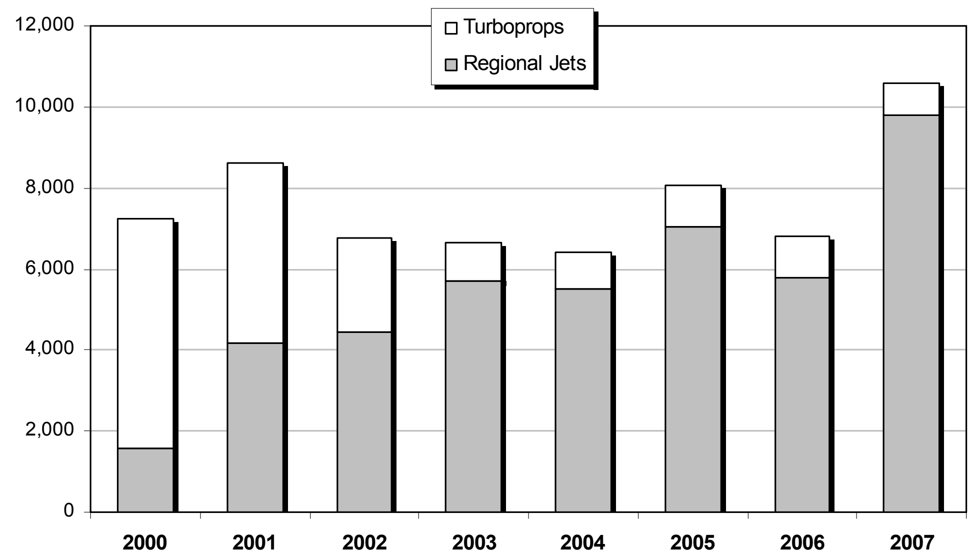
Source: Official Airline Guide

As shown in the exhibit above, the mix between regional jets and turboprops has completely changed. In 2000, regional jets comprised 13.0 percent of the total regional and turboprop daily activity; however, by 2006, regional jets had expanded to 69.0 percent of the total regional market share.

Initially, the growth of RJ operations at Logan translated into increased regional airline seat capacity. However, carriers accelerated turboprop retirements starting at the end of 2001. As a result, regional carrier seat capacity at Logan was below its

2001 high between 2002 to 2005, as shown in Exhibit 4-11. However, in the latest period (February 2007) the seat capacity has proven to be a different story as the combined daily seats for regional jets and turboprops surpassed the number of seats during the previous high in 2001. Turboprops made up 15.0 percent of the seats in February 2006 of regional flying and accounted for 8.0 percent of the seats in February 2007, demonstrating the rapid decline from 2000 levels when turboprops flew 78.0 percent of the seats in the regional market.

Exhibit 4-11: Regional Airline Daily Seat Capacity at Logan by Aircraft Class (February 2000 to February 2007)



Note: 2000 to 2006 includes August daily seats, 2007 analysis includes April daily seats
Source: Official Airline Guide

One of the most noticeable trends at Logan over the recent past is the increase in the average number of passengers per aircraft operation. As illustrated in Exhibit 4-12, the average number of passengers per commercial airline operation ("PPO") ranged from 55 to 61 seats for the 20-year period between 1980 and 2000. Between 1995 and 2000, the average PPO was approximately 56. However, this average has changed dramatically since 2000. In CY 2001, airlines operating at Logan averaged 56 PPO compared with a 2006 average of over 73 PPO. While the domestic regional carriers continued their decade-long increase in aircraft size, from almost 14 PPO in CY 2000 to over 21 PPO in CY 2006, domestic large jet carriers also increased from 84 PPO to 99 PPO over the same time period. This trend reflects the emphasis of carriers on increasing load factors and more effectively assigning appropriate aircraft to routes.

Exhibit 4-12: Trend in Average Passengers per Operation at Logan

Calendar Year	Average Passengers per Operation			
	Domestic Large Jet	Domestic Regional	International	Total
1970	43.4	7.2	52.1	38.4
1980	67.7	7.7	114.5	57.0
1990	80.2	10.3	106.8	57.1
1995	85.8	11.0	85.3	54.5
2000	84.2	13.7	99.9	61.0
2001	79.6	13.7	93.6	56.1
2002	85.0	16.2	98.5	61.7
2003	96.7	15.8	99.9	65.9
2004	93.9	20.0	104.9	69.6
2005	98.0	20.0	109.5	71.7
2006	98.6	21.3	111.6	73.7
1970-80	4.6%	0.7%	8.2%	4.0%
1980-90	1.7%	2.9%	-0.7%	0.0%
1990-00	0.5%	2.9%	-0.7%	0.7%
1995-00	-0.4%	4.5%	3.2%	2.3%
2000-06	2.7%	7.7%	1.9%	3.2%
Percent Change Over Prior Year				
2001	-5.5%	0.4%	-6.3%	-8.0%
2002	6.8%	17.9%	5.3%	10.0%
2003	13.8%	-2.4%	1.4%	6.8%
2004	-2.9%	26.7%	5.0%	5.6%
2005	4.3%	-0.4%	4.4%	3.0%
2006	0.6%	6.8%	1.9%	2.8%

Source: Massport

4.4 SCHEDULED COMMERCIAL AIRLINE SERVICE

4.4.1 Domestic Mainline Service

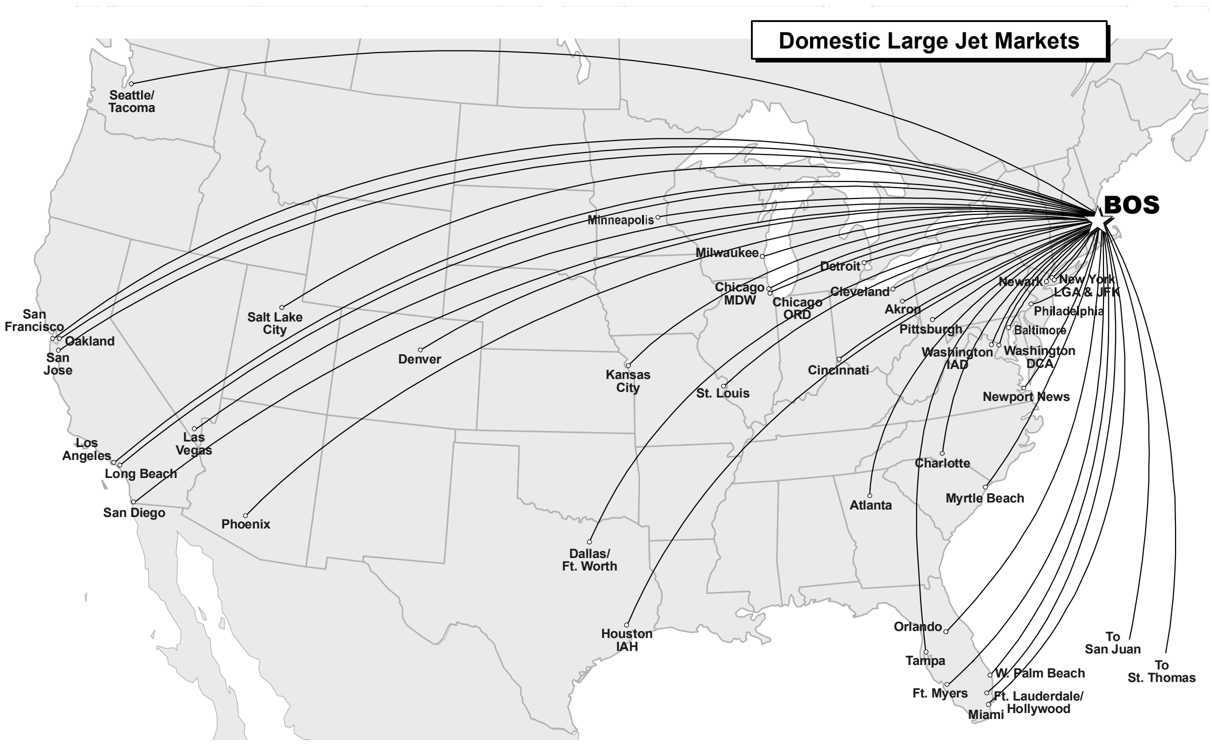
Ten major U.S. airlines provide scheduled domestic service to Logan as of April 2007. All major carriers with revenues over $1 billion serve Logan except for Southwest Airlines. The complete list of mainline carriers currently serving Logan is included in Exhibit 4-13 and Logan's current nonstop jet service is illustrated in Exhibit 4-14.

Exhibit 4-13: U.S. Mainline Carriers Serving Logan (as of April 2007)

AirTran Airways	Midwest
Alaska Airlines	Northwest
American Airlines	Spirit
Continental Airlines	United
Delta Airlines	US Airways (America West and US Airways)
JetBlue	

Source: Official Airline Guide

Exhibit 4-14: Domestic Nonstop Large Jet Markets Served from Boston Logan (as of April 2007)



Source: Official Airline Guide

Following 9/11 and the subsequent airline financial distress, Logan experienced deep reductions in scheduled service. Service reached a low point in February 2003, when mainline carriers served Logan with 234 daily departures to domestic destinations. This represented a 29.0 percent reduction from February 2001, when the Airport was served with 329 daily domestic jet departures. These service reductions cut across most markets including connecting hubs, leisure destinations, and trans-continental flights. Since 2003, carriers have steadily increased service at Boston.

Domestic large jet and regional jet carriers increased service by 13 departures over 2003 and 2004. Another 30 departures were added in 2005 compared to the previous year. In 2006 there was a slight decline of almost 4.0 percent of daily departures for large and regional jets; however, in February 2007 there was a 7.0 percent increase bringing the total daily departures for domestic large jets and regional jets to 409 surpassing February 2001 departures slightly. Exhibit 4-15 below shows the scheduled airline service changes at Logan over the past three years.

After cutting turboprop frequencies by almost half in 2002, the segment remained relatively static in 2003 and 2004. There was a slight increase in turboprop departures in 2005 to 47 daily departures and then again in 2006 to 54 daily, however that number dropped to 2003 levels in February 2007 with only 44 daily departures.

The mix of carriers serving Logan has also changed in the past few years, as shown in Exhibit 4-15. American Trans Air, Independence Air and Delta's Song no longer serve Logan whereas JetBlue and Spirit have entered Logan in the last few years, with JetBlue very quickly becoming a leading carrier at the Airport.

Exhibit 4-15: Scheduled Airline Service at Logan (February 2005 – February 2007)

Carrier	Nonstop Daily Departures Feb 05	Feb 06	Feb 07	Net Change 04-05	05-06	06-07
Mainline Carriers						
AirTran Airways	17	26	27	2	9	1
Alaska	1	1	1	0	0	0
America West	6	5	6	(1)	(1)	1
American	43	35	34	(6)	(8)	(1)
American Trans Air	3	0	0	0	(3)	0
Continental	18	18	16	1	0	(2)
Delta	36	29	46	1	(7)	17
Delta Song	19	18	0	3	(1)	(18)
JetBlue	20	44	29	9	24	(15)
Midwest Airlines	4	6	5	0	2	(1)
Northwest	13	11	11	(1)	(2)	0
Spirit	0	0	3	0	0	3
United	26	29	29	(2)	3	0
US Airways	60	54	52	5	(6)	(2)
Subtotal	**266**	**276**	**259**	**11**	**10**	**(17)**
Regional Carriers (RJs)						
America West Express	0	0	0	0	0	0
American Eagle	59	46	41	(1)	(13)	(5)
Continental Express	1	2	2	(1)	1	0
Delta Connection /1	37	36	51	0	(1)	15
JetBlue	0	0	27	0	0	27
Independence Air	11	0	0	11	(11)	0
Northwest Airlink	7	5	6	7	(2)	1
United Express	5	7	6	2	2	(1)
US Airways Express /2	16	12	17	1	(4)	5
Subtotal	**136**	**108**	**150**	**19**	**(28)**	**42**
Jet and Regional Jet Departures	**402**	**384**	**409**	**30**	**(18)**	**25**
Regional Carriers (Turboprops)						
Cape Air	17	18	15	2	1	(3)
Continental Express	8	14	7	(1)	6	(7)
US Airways Express /2	17	18	22	2	1	4
Other	5	4	0	1	(1)	(4)
Subtotal	**47**	**54**	**44**	**4**	**7**	**(10)**
Total Daily Departures	**449**	**438**	**453**	**34**	**(11)**	**15**

/1 Low-fare business unit of Delta Air Lines

/2 Several carriers (Air Wisconsin, Chautauqua, Colgan, Mesa, MidAtlantic, Piedmont, Public Charters, PSA, Republic and Transtates) are, or have operated as, US Airways Express

Source: OAG Schedule Tapes

4.4.2 Regional Service

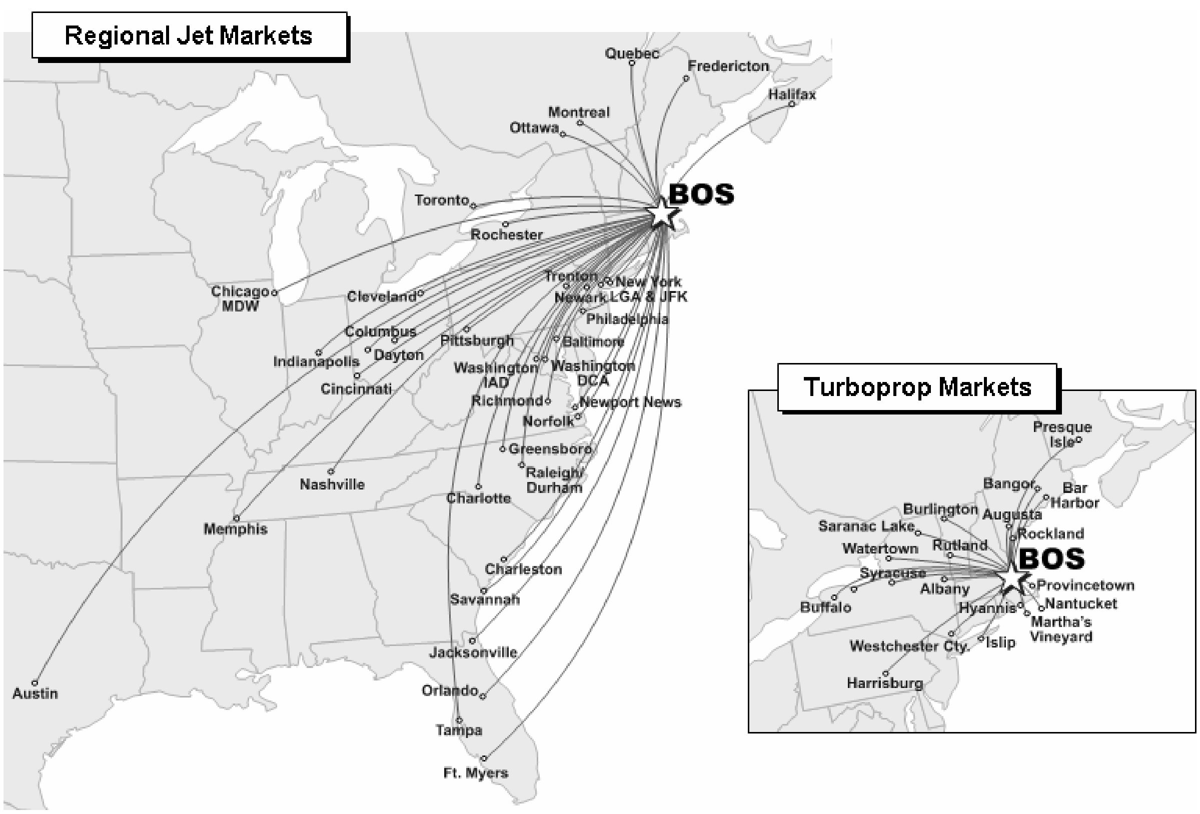
As of February 2007, 13 regional carriers provide scheduled passenger service at Logan Airport (see Exhibit 4-16). With the exception of Cape Air, the regional carriers serving Logan are either wholly owned by a mainline carrier or operate under joint marketing agreements with mainline carriers. A few regional airlines, such as Chautauqua and Mesa, operate for more than one mainline carrier. The regional service provided by these 13 carriers is shown in Exhibit 4-17.

Exhibit 4-16: Regional Airlines (and Affiliates) Operating at Logan (2007)

Air Canada Jazz (Air Canada)
Air Wisconsin (US Airways Express)
American Eagle
Cape Air
Chautauqua (Delta Connection and US Airways Express)
Colgan (US Airways Express)
Comair (Delta Connection)
Continental Express
Mesa (America West Express and United)
Piedmont (US Airways Express)
Pinnacle (Northwest Airlink)
PSA (US Airways Express)
Republic (US Airways Express)

Source: Official Airline Guide

Exhibit 4-17: Regional Carrier Nonstop Markets Served from Logan (2007)



Source: Official Airline Guide

Regional carriers began increasing RJ service and reducing turboprop service at Logan prior to September 11. Schedules for February 2001 show a 100.0 percent increase in RJ departures and a 21.0 percent decline in turboprop departures compared to the prior year. As previously discussed, regional carriers have been increasing their regional jet fleets and retiring their turboprop fleets. While RJs had become an important component of mainline carrier growth strategies before this decade, they have taken on added importance in the last few years given the operating environment.

At Logan, mainline carriers have used the RJs of their regional carrier partners for:

- Competitive entry into short-haul, high-density markets,
- New nonstop service to medium-density markets beyond turboprop range (approximately 400 miles), and
- Turboprop replacement.

JetBlue has positioned itself as a major competitor at Logan, supported by the airline's lease of 11 gates in Logan's Terminal C that Delta vacated when it moved to the new Terminal A in March 2005. JetBlue continues to grow at Logan, doubling its service between 2005 and 2006. In the first four months of 2007, the carrier also increased another 50 percent versus the first four months in 2006. Also, JetBlue is utilizing Embraer regional jets on its high-frequency Boston-New York JFK service as well as for thin and developing routes.

4.4.3 International Service

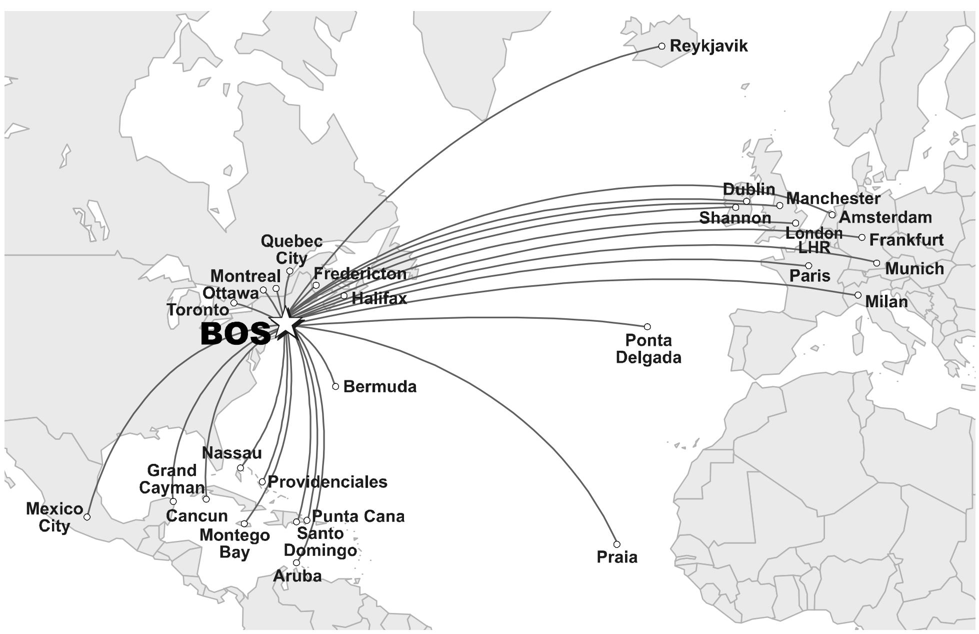
Twenty-four U.S. and foreign flag airlines provided scheduled jet service from Logan Airport to international destinations in April 2007. Exhibit 4-18 lists these carriers. The three major global airline alliance groups – oneworld, SkyTeam, and Star Alliance – are all represented at Logan Airport by more than one carrier in each alliance. Exhibit 4-19 shows the current international markets served.

Exhibit 4-18: U.S. and Foreign Carriers Providing International Service at Logan International Airport (2007)

US Flag	Foreign Flag
American (oneworld)	Aer Lingus
Delta (SkyTeam)	Aeromexico (SkyTeam)
JetBlue	Air Canada (Star Alliance)
Northwest (SkyTeam)	Air France (SkyTeam)
US Airways (Star Alliance)	Air Jamaica
	Alitalia (SkyTeam)
	British Airways (oneworld)
	Cayman Airlines
	Finnair (oneworld)
	flyglobespan
	Iberia
	Icelandair
	KLM (SkyTeam)
	LACSA Airlines
	Lufthansa (Star Alliance)
	SATA International Airlines
	SWISS (Star Alliance)
	TACA International
	TACV Cabo Verde Airlines
	Virgin Atlantic

Source: Official Airline Guide

Exhibit 4-19: Nonstop International Service from Logan (April 2007)



Source: Official Airline Guide

Exhibit 4-20 below details international carrier service changes at Boston Logan from 2005 to 2007. In the last two years, several new foreign flag carriers have begun service to Logan, including Cayman Airlines, Finnair, LACSA, SATA, and TACV Cabo Verde. US Airways launched new international service in 2004 with direct service from Boston to four Caribbean destinations including Aruba, Cancun, Montego Bay, and Nassau. In May 2005, American began direct service between Boston and Shannon, Ireland while Finnair commenced service in the summer of 2005 with thrice weekly service to Helsinki, via the Swedish airport of Skavsta (Stockholm). Finnair's service is the first direct link between Boston and Sweden or Finland in Logan's history.

JetBlue has also begun international service, offering seasonal flights to Nassau in the Bahamas and also offering seasonal service starting in May 2007 to Bermuda. JetBlue will launch service to Aruba in June 2007. Cayman Airlines began service with one weekly departure to Grand Cayman. Iberia recently announced new service between Logan and Madrid. Iberia will offer five weekly fights starting in May 2007. In addition, European carrier flyglobespan announced service to two new locations from Boston Logan. The discount European airline will offer twice weekly service to West Airport in Knock, County Mayo (Ireland). The carrier will also begin service between Logan and Glasgow (Scotland) in May 2007. Northwest will add an additional daily flight from Boston to Amsterdam in July 2007 increasing their service to twice daily.

Air Canada has shifted service from large jet service to higher frequencies of regional service. The airline had 29 large jet weekly departures in February 2005 and 23 weekly regional jet departures. However, as of February 2007, the carrier eliminated all large jet service at Logan and increased regional jet service to 32 weekly departures. In addition, Air Canada Jazz has increased their flights dramatically from 22 weekly departures in February 2005 to 76 weekly departures in February 2007. Despite Air Canada shifting their mainline large jet service to regional jets over the last couple of years, the carrier has shown its commitment to Logan with more than 108 scheduled weekly departures as of February 2007.

Exhibit 4-20: Scheduled International Service at Logan International Airport (February 2003 to February 2007)

Carrier	Nonstop Weekly Departures Feb 03	Feb 05	Feb 07	Net Change 03-05	05-07	03-07
Jet Carriers						
Aer Lingus	7	7	7	0	0	0
Aeromexico	0	7	1	7	(6)	1
Air Canada	42	29	0	(13)	(29)	(42)
Air France	12	12	7	0	(5)	(5)
Air Jamaica	6	5	0	(1)	(5)	(6)
Alitalia	7	7	7	0	0	0
American	24	29	24	5	(5)	0
British Airways	21	21	21	0	0	0
Cayman Airlines	0	0	1	0	1	1
Delta	7	7	7	0	0	0
Icelandair	5	7	7	2	0	2
JetBlue	0	0	4	0	4	4
LACSA	3	1	0	(2)	(1)	(3)
Lufthansa	11	7	7	(4)	0	(4)
Northwest	7	7	7	0	0	0
Sata Internacional	0	0	2	0	2	2
Swissair/SWISS	5	7	7	2	0	2
TACA	0	2	0	2	(2)	0
TACV-Transportes Aereos de Cabo	0	1	1	1	0	1
US Airways	0	13	8	13	(5)	8
Virgin Atlantic	7	7	7	0	0	0
Subtotal	**164**	**176**	**125**	**12**	**(51)**	**(39)**
Regional Carriers (RJs)						
Air Canada	50	23	32	(27)	9	(18)
Air Canada Jazz	0	22	76	22	54	76
American Eagle	38	33	28	(5)	(5)	(10)
Delta Connection	49	35	28	(14)	(7)	(21)
JetBlue	0	0	3	0	3	3
Subtotal	**137**	**113**	**167**	**(24)**	**54**	**30**
Jet and Regional Jet Departures	**301**	**289**	**292**	**(12)**	**3**	**(9)**
Regional Carriers (Turboprops)						
Air Canada Jazz	26	28	1	2	(27)	(25)
Subtotal	**26**	**28**	**1**	**2**	**(27)**	**(25)**
Total Weekly Departures	**327**	**317**	**293**	**(10)**	**(24)**	**(34)**

Source: Official Airline Guide

Logan's international services are heavily oriented toward European destinations, making it the 6th busiest U.S. gateway for transatlantic air travel (Exhibit 4-21). Also, 72.0 percent of Logan's international traffic is between Boston and transatlantic locations.

Exhibit 4-21: Top U.S. Gateways for Transatlantic Passengers (YE3Q 2006)

2006 Psgr. Rank	US Gateway	Total Psgrs. YE Sep 06	2006 Pct. Share
1	New York	17,959,336	33.7%
2	Chicago	5,418,817	10.2%
3	Washington	3,658,258	6.9%
4	Atlanta	3,544,943	6.7%
5	Los Angeles	3,226,933	6.1%
6	**Boston**	**2,731,034**	**5.1%**
7	Miami	2,278,383	4.3%
8	San Francisco	2,088,542	3.9%
9	Philadelphia	2,021,694	3.8%
10	Detroit	1,600,082	3.0%
11	Houston	1,365,665	2.6%
12	Orlando	1,098,999	2.1%
13	Sanford	1,049,658	2.0%
14	Dallas/Fort Worth	951,229	1.8%
15	Minneapolis	715,438	1.3%
16	Cincinnati	588,434	1.1%
17	Seattle	523,593	1.0%
18	Denver	414,746	0.8%
19	Charlotte	404,475	0.8%
20	Las Vegas	391,891	0.7%
	Sub Total: Top 20	**52,032,150**	**97.6%**
	Other	1,272,336	2.4%
	Total US	**53,304,486**	**100.0%**

Source: T100 Database via Database Products

4.4.4 Domestic Origin and Destination Patterns at Logan

Service at Logan extends to 73 nonstop destinations within the United States. The top 30 destinations (as shown in Exhibit 4-22) accounted for over 75.0 percent of Boston's O&D traffic in the year ending 3rd quarter 2006.

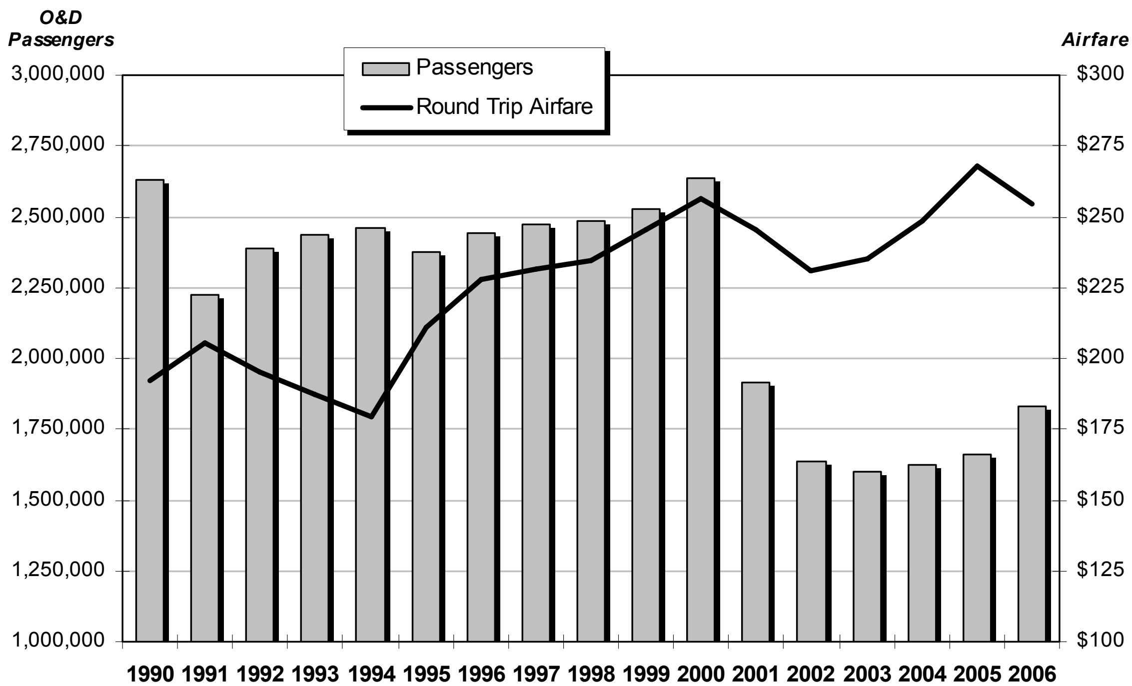
Exhibit 4-22: Top Domestic O&D Passenger Markets

Rank	City		Nonstop Miles	O&D Psgrs	Percent of Total	Sched Daily Departures
1	New York	NYC	200	1,829,000	9.0%	71
2	Washington	WAS	413	1,233,710	6.0%	45
3	Orlando	ORL	1,121	978,300	4.8%	15
4	Fort Lauderdale	FLL	1,237	790,430	3.9%	16
5	Chicago	CHI	867	776,550	3.8%	28
6	Atlanta	ATL	946	775,690	3.8%	18
7	Los Angeles	LAX	2,611	684,520	3.4%	9
8	San Francisco	SFO	2,704	679,330	3.3%	8
9	Philadelphia	PHL	280	664,780	3.3%	18
10	Tampa	TPA	1,185	542,120	2.7%	9
11	Baltimore	BWI	370	505,650	2.5%	16
12	Las Vegas	LAS	2,381	489,350	2.4%	7
13	Fort Myers	FMY	1,249	485,650	2.4%	8
14	Denver	DEN	1,754	471,950	2.3%	10
15	Dallas/Fort Worth	DFW	1,562	451,950	2.2%	11
16	West Palm Beach	PBI	1,197	425,850	2.1%	6
17	Minneapolis	MSP	1,124	355,810	1.7%	6
18	Seattle/Tacoma	SEA	2,496	335,450	1.6%	7
19	Miami	MIA	1,258	331,220	1.6%	6
20	Charlotte	CLT	727	278,820	1.4%	11
21	San Juan	SJU	1,674	266,030	1.3%	6
22	Houston Hobby	HOU	1,597	264,940	1.3%	6
23	Detroit	DTW	632	259,870	1.3%	9
24	Phoenix	PHX	2,300	257,870	1.3%	7
25	Oakland	OAK	2,693	255,420	1.3%	1
26	San Diego	SAN	2,588	244,980	1.2%	2
27	Long Beach	LGB	2,602	231,820	1.1%	2
28	Raleigh/Durham	RDU	612	231,580	1.1%	13
29	Pittsburgh	PIT	496	181,200	0.9%	6
30	San Jose	SJC	2,689	162,870	0.8%	3
	Subtotal Top 30			**15,442,710**	**75.6%**	
	All Other			4,971,960	24.4%	
	Total			**20,414,670**	**100.0%**	

Source: O&D Database, Database Products

The New York market, which includes traffic to LaGuardia, JFK and Newark, has traditionally been Boston's largest O&D market. The New York/Newark market comprised 1.8 million passengers in the year ending September 2006, representing 9.0 percent of Logan's total O&D market (Exhibit 4-23). The Boston-New York traffic is driven by the shuttle service offered by Delta and US Airways to LaGuardia Airport and JetBlue's service to JFK. Continental also provides multiple daily flights to Newark International Airport while American Eagle provides service to JFK. Since 2001, passenger traffic between Boston and the New York area has remained between 1.6 and 1.8 million passengers.

Exhibit 4-23: Average Passengers and Fare between Boston - New York (1990 – YE3Q2006)



Source: O&D Database, via database products

The New York market reached a high of 2.6 million passengers in 2000. A combination of factors negatively impacted the Boston-New York air passenger market, including Amtrak's introduction of high-speed Acela Express service in December 2000[14]. After a few operational challenges during its startup, the Acela

[14] In addition to the Acela Express service that is operated with new high-speed trains, Amtrak also provides Acela Regional service with conventional train sets.

service appears to be back on track and continuing to attract potential air passengers. Delays and long security lines after 9/11, which added travel time and discouraged short-haul air travel and the general decline in business travel (Boston-New York is a strongly business oriented market) have also negatively impacted passenger traffic on the shuttle. However, JetBlue's increased service to New York, which started in the 4th Q 2005 has grown rapidly each quarter. The New York market increased by 200,000 passengers as of year ending 3rd quarter 2006. JetBlue's entry into the market appears to have stimulated passenger traffic but also has drawn traffic away from Delta and US Airways traffic as well.

The average round trip fare in the Boston-New York market has been steadily increasing. As of the 3rd Q 2006 the average round trip fare to New York averaged $255. This fare is down slightly from the 2005 high of $268 but higher than any other year since 2000 (see Exhibit 4-23 above).

Passenger traffic patterns at Logan Airport have shifted over the past five years. As shown in Exhibit 4-24, demand has shifted away from the Mid-Atlantic and New England states to the Mountain, Pacific, Southeast and Midwest regions. Travel to the Southeastern portion of the U.S. has grown to 29 percent of Logan traffic from 25 percent ten years ago, while traffic in short haul markets to Mid-Atlantic states has declined from 31 percent to 25 percent during that same period. The increased traffic in the Mountain region stems from United's increased service to its Denver hub.

Exhibit 4-24: O&D Passengers by Region from Boston Logan Airport

	O&D Passengers			% of BOS Market Share			CAGR
US Region	YE3Q96	YE3Q01	YE3Q06	YE3Q96	YE3Q01	YE3Q06	'96-'06
Great Lakes	2,270,130	2,001,370	2,279,160	12%	11%	11%	0.0%
Mid-Atlantic	5,764,800	5,153,150	5,118,370	31%	28%	25%	-1.2%
Midwest	729,490	764,180	805,390	4%	4%	4%	1.0%
Mountain	**528,500**	**708,890**	**755,290**	**3%**	**4%**	**4%**	**3.6%**
New England	361,230	269,190	168,130	2%	1%	1%	-7.4%
Pacific	**2,929,650**	**2,879,250**	**3,691,710**	**16%**	**15%**	**18%**	**2.3%**
Southeast	**4,681,710**	**5,247,990**	**5,874,450**	**25%**	**28%**	**29%**	**2.3%**
Southwest	1,240,380	1,276,300	1,383,330	7%	7%	7%	1.1%
US Territories	259,200	325,120	338,840	1%	2%	2%	2.7%
Total	**18,765,090**	**18,625,440**	**20,414,670**				**0.8%**

Source: O&D Database via database products

4.5 CARGO TRAFFIC

Logan airport was the 23rd largest U.S. airport in terms of cargo volume as of the year ending September 2006 (Exhibit 4-25). Of the top 25 airports, nine are primary or secondary sorting hubs for all-cargo carriers. When all cargo airline hubs are excluded, Logan is the 14th largest airport in terms of cargo volume.

Exhibit 4-25: Top U.S. Airports Ranked by Cargo Volume (CY 2005)

2006 Rank	2005 Rank	Airport	Code	Total Cargo (Metric Tons)
1	1	Memphis	MEM	3,832,983
2	3	Los Angeles	LAX	2,172,999
3	4	Louisville	SDF	2,143,867
4	5	Miami	MIA	1,934,055
5	7	Chicago O'Hare	ORD	1,815,047
6	2	Anchorage	ANC	1,795,642
7	6	New York J F Kennedy	JFK	1,751,486
8	8	Indianapolis	IND	1,106,814
9	9	New York Newark	EWR	984,289
10	10	Atlanta	ATL	939,349
11	11	Dallas/Fort Worth	DFW	894,615
12	NA	Wilmington	ILN	832,488
13	12	Oakland	OAK	745,154
14	14	Philadelphia	PHL	674,882
15	13	San Francisco	SFO	612,584
16	16	Honolulu	HNL	583,672
17	15	Ontario	ONT	559,687
18	17	Houston Intercontinental	IAH	447,993
19	20	Seattle/Tacoma	SEA	377,573
20	24	Phoenix	PHX	341,306
21	22	Denver	DEN	338,068
22	23	Washington Dulles	IAD	330,539
23	**18**	**Boston**	**BOS**	**328,512**
24	25	Minneapolis	MSP	295,191
25	26	Portland	PDX	288,406
26	NA	Rockford	RFD	256,365
27	32	Dallas-AFW	AFW	234,456
28	31	Detroit	DTW	230,233
29	NA	San Juan	SJU	220,505
30	29	Orlando	MCO	216,952

Source: T100 Database, YE September 20065

Five all-cargo airlines had operations at Logan in 2006. In addition to the all-cargo carriers, passenger airlines also provide belly cargo capacity at the Airport.

Exhibit 4-26: All Cargo Airlines Operating at Logan (CY 2006)

Airborne / DHL	Kitty Hawk
BAX Global	UPS
Federal Express	

Note: Cargo Airlines listed with over 30 operations for CY 2006
Source: Massport

In FY 2006, Logan Airport handled 679,000 tons of cargo. In the last year, cargo volumes at Logan have fallen by 8 percent. All segments of cargo, from express/small package shipments, to heavy freight and mail have declined since FY 2004 as a result of slower economic growth and a shift by the cargo carriers, particularly the integrators[15], to move more shipments by truck (Exhibit 4-27).

Exhibit 4-27: Historical Trends in Cargo Volume

		Annual Percent Change		
Fiscal Year	Total Cargo	Express/Small Packages	Freight and Mail	Total Cargo
1990	763,656	14.3%	-7.8%	-2.1%
1991	786,421	20.0%	-4.4%	3.0%
1992	825,493	1.6%	1.8%	5.0%
1993	834,075	7.4%	-2.4%	1.0%
1994	895,252	19.7%	0.0%	7.3%
1995	932,005	13.7%	-2.7%	4.1%
1996	883,029	1.4%	-10.8%	-5.3%
1997	932,481	5.3%	5.9%	5.6%
1998	996,370	6.6%	7.1%	6.9%
1999	804,905	-3.4%	-34.1%	-19.2%
2000	854,684	6.0%	6.4%	6.2%
2001	798,368	-8.3%	-4.2%	-6.6%
2002	765,234	-2.5%	-6.4%	-4.2%
2003	744,838	1.5%	-0.2%	-2.7%
2004	759,275	1.3%	0.2%	1.9%
2005	741,517	-1.2%	-5.0%	-2.3%
2006	679,068	-10.7%	-5.9%	-8.4%
Average Annual Growth				
1990-1995		12.9%	-0.9%	4.1%
1995-2000		3.1%	-6.6%	-1.7%
1990-2000		7.9%	-3.8%	1.1%
2000-2006		NA	NA	-3.8%

Source: Massport

[15] Unlike traditional all-cargo airlines, which only provide air services for packages and freight shipments, the integrated cargo carriers provide door-to-door delivery including the air and ground portions of a cargo shipment.

Historically, Logan's total cargo volume grew at an average annual rate of 1.1 percent from FY 1990 to FY 2000. However, express and small package shipments grew much faster at 7.9 percent per year, while heavy freight and mail declined by 3.8 percent annually. As a result, the composition of Logan's cargo activity has shifted over time. In FY 1990, express/small packages accounted for 30.0 percent of total volume, but in 2006 that segment represented 62.0 percent of the Airport's total volume.

4.6 GENERAL AVIATION

Annual general aviation ("GA") activity at Logan Airport is shown in the Exhibit below. In FY 2006, approximately 31,400 general aviation operations occurred at the Airport. While the term general aviation encompasses a broad range of activity from pilot training, to recreational and corporate use, the GA activity at Logan is primarily business and corporate aviation.

Exhibit 4-28: General Aviation Activity (CY 1985 to CY 2006)

Year	General Aviation Operations	Annual Percent Change
1985	30,523	-
1990	26,018	-7.2%
1995	24,070	0.2%
2000	40,371	19.0%
2001	31,687	-21.5%
2002	25,524	-19.4%
2003	28,660	12.3%
2004	31,236	9.0%
2005	32,652	4.5%
2006	31,444	-3.7%
Average Annual Growth		
1990-1995		-1.5%
1995-2000		10.9%
1990-2000		4.5%
2000-2006		-4.1%

Source: Massport

The U.S. general aviation sector is highly cyclical and fluctuates with changes in the economy as well as changes in the price of private aircraft ownership. After strong growth in the 1970s, the U.S. general aviation industry entered a long period of decline throughout the 1980s and most of the 1990s. During this period a series of

product liability lawsuits that drove up the cost of GA aircraft ownership dampened GA operations growth. The industry began to recover from this slump in the late 1990s after Congress passed liability reform legislation to help revitalize the industry.

For the most part, GA activity trends at Logan have largely mirrored national general aviation activity trends. After several years of slowly declining operations, general aviation operations at Logan began to increase in the late 1990s. From FY 1995 to FY 2000, GA operations at Logan increased at an average annual rate of almost 11.0 percent compared to average annual declines of 1.5 percent over the prior 5-year period. During this period Logan's GA operations increased by 19.0 percent and peaked at 40,400 operations in FY 2000, the result of a strong economy and special events in the Boston area that attracted significant numbers of corporate and private GA users to Logan.[16] After the 9/11 terrorist attacks, the Airport placed restrictions on GA activity which caused a decline in operations at Logan. GA activity has since rebounded from the low of 25,500 operations in FY 2002. Since that time, GA activity has been increasing steadily however the level achieved in 2006 was essentially constant when compared to 2004 activity.

[16] In July 1999, Boston hosted the Major League Baseball Allstar game and in September 1999, the Ryder Cup Golf Tournament was held in Brookline, MA.

5 INDUSTRY OVERVIEW

5.1 INTRODUCTION

The U.S. airline industry has entered a period of continued, but cautious growth. SH&E believes that for the period from 2005 through 2025 airlines in the U.S. and globally will continue to expand their services, but will do so at a slightly slower pace[17]. In the North American market, passenger growth is estimated at 2.7 percent annually, on average with aircraft movements expected to rise 2.0 percent annually, on average, through 2025[18]. Continued fuel price fluctuation, competitive capacity initiatives, and pricing actions will affect the level and the type of capacity added. U.S. carriers will also continue to reallocate capacity from routes experiencing yield pressure (e.g. competitive north-south routes on the east coast) to routes with yield premiums available (e.g. trans-Atlantic and trans-Pacific services).

Three carriers, ATA, United, and US Airways exited bankruptcy protection in 2005 and 2006, poised for continued operations with lower costs and refocused efforts. Two carriers, Delta and Northwest, entered bankruptcy in 2005. Delta emerged from bankruptcy on April 30, 2007, and Northwest is anticipated to exit by mid 2007.

Through the completed or ongoing bankruptcy efforts, these carriers have attempted to address revenue, cost, and service aspects of their businesses. The two most notable areas of adjustment have been in capacity reallocation and employee compensation. Bankrupt carriers have adjusted capacity significantly, reducing directly, allocating to regional partners, or transferring aircraft and seat capacity to international services. Many view the reduction activities as long overdue, though competitive pressure causes periodic increases in capacity which then drive subsequent contractions due to overcapacity and poor route financial performance. The second major change realized through bankruptcy activities was wage renegotiation for airline employee groups and in some instances a redefinition of pension benefits, all designed to lower costs. Additional cost reduction activities focused on aircraft and facility leases as well as supplier renegotiations. Lastly, these carriers have worked to increase revenues through modified distribution practices and

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[17] International Air Transport Association forecasts growth will slow from 8.0% in 2006 to 4.0% in 2007, with a flat operating profit, Air Transport Association (March 2007) advised of a weakening domestic revenue environment while international revenue rose 13.0%, year-over-year.
[18] Airports Council International, Global Traffic Forecast, 2006 to 2025.

capitalization on capacity reduction benefits of less discounted seat inventory, driving higher load factors and higher average fares.

Network carriers not operating under bankruptcy protection have weathered increasing fuel costs through fare increases, network rationalization, and cost control efforts across their operations. American Airlines is the only large network carrier[19] to have avoided bankruptcy, whereas Continental has been through the bankruptcy process twice, exiting many years ago. Both of these carriers have maintained their focus on network coverage and full service products to drive premium traffic and repeat customer business.

LCCs – Southwest, JetBlue, and AirTran have been expanding rapidly –filling some of the void left by downscaling network carriers. LCCs have grown their route structures, entered network carrier hubs, added services competing directly with network carriers, and in some cases begun competing with each other. After years of very rapid growth, some of these carriers have experienced operational and revenue challenges, and are now planning slower and more deliberate growth going forward. All of these industry factors directly or indirectly affect current and future airline service and passenger growth at Logan Airport.

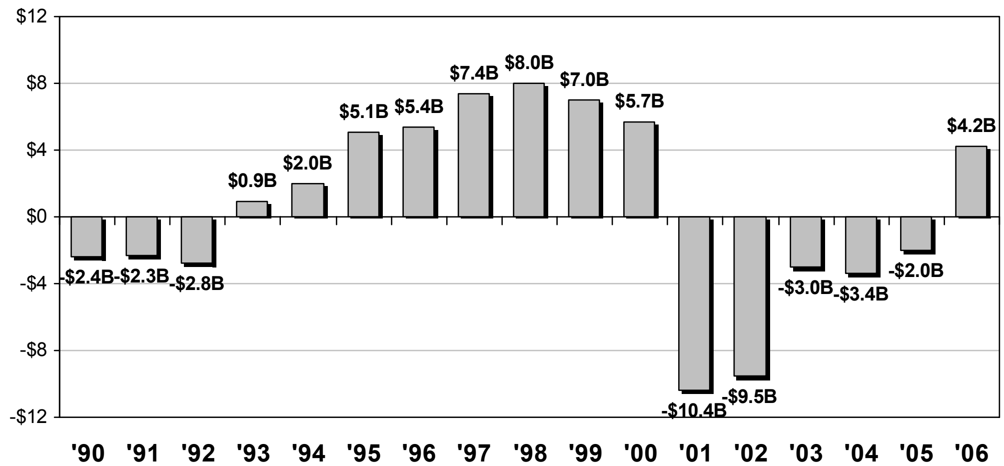
5.2 U.S. INDUSTRY

The past six years has been a very challenging period for the industry, but one in which some airlines were able to grow their networks significantly, notably JetBlue and AirTran. During this period the network carriers (e.g. American Airlines, Delta Air Lines, and United Airlines) have refocused their operations, trimming headcount and routes, reallocating flying, and adding service in a focused manner, whether domestic or international. The LCCs have expanded rapidly, entering new markets across the country, competing with each other and competing directly with network carriers.

Overall, the U.S. airline industry has shrunk its operating loss from $10 billion in 2001 and $9.5 billion in 2002 to $2 billion in 2005. In 2006, the industry experienced an operating profit of approximately $4.3 billion based upon initial projections and available data (Exhibit 5-1).

[19] Large network carriers, for this example, include American, Continental, Delta, Northwest, United, and US Airways.

Exhibit 5-1: Operating Income of U.S. Scheduled Airlines (In $ Billions, *CY 1990 to CY 2006)*

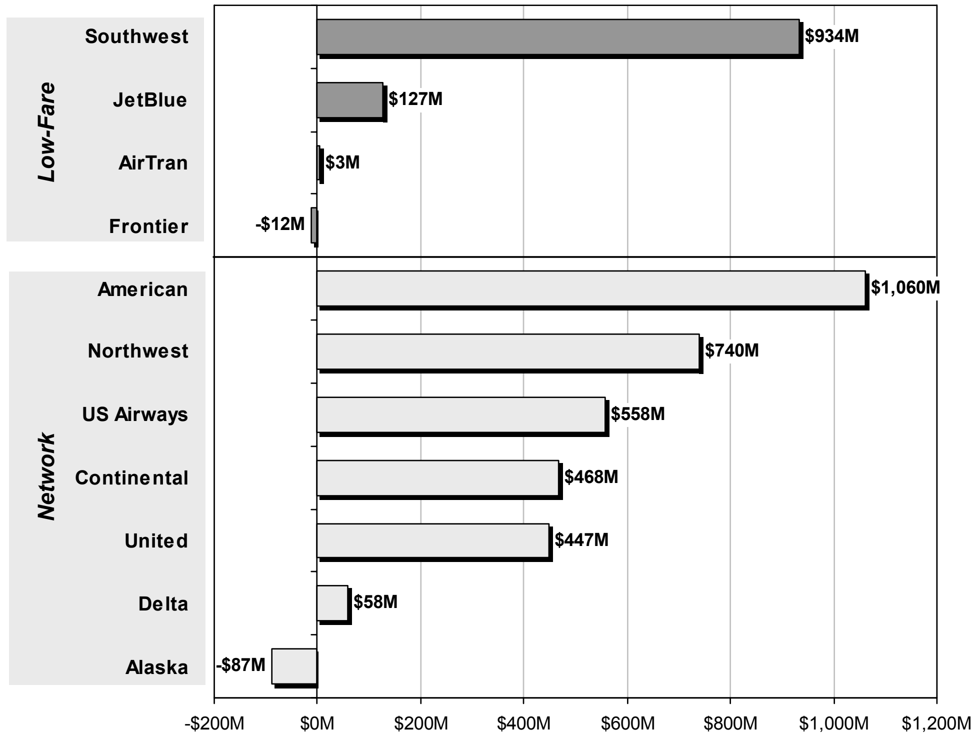


Source: U.S. DOT Form 41 Database, note 2006 figure includes American, Southwest, Northwest, US Airways, Continental, United, jetBlue, Delta, AirTran, Frontier, and Alaska Airlines

All major carriers and LCCs reported an operating profit in 2006, except Alaska Airlines[20] (Exhibit 5-2). Southwest led profits for the LCCs, with $934 million while jetBlue posted an operating profit of $127 million and AirTran $3 million. In looking at the network carriers, American had an operating income profit of $1.06 billion, followed by Northwest at $740 million and US Airways with $558 million. In 2006, the U.S. airlines were finally able to exert some degree of pricing power which resulted in higher revenues that helped offset increased fuel costs and drove higher yields on refined route networks.

[20] Alaska Airlines was hit with a significant fleet adjustment charge related to its 737 fleet and a significant incentive program contribution due to a strong financial year.

Exhibit 5-2: Financial Results for U.S. Major Airlines (2006)



Source: Selected Carrier Reports

Due to the significant bankruptcy activities of United, Delta, and Northwest, operating income was used for comparative purposes to remove the effect of extensive "one-time" restructuring costs.

While the industry had a profitable year in 2006, structural changes within carrier ranks continued to take place. One of the most striking developments of the year was the growth in seat capacity by the LCCs and the relative restraint in response to this growth by legacy carriers. AirTran increased its capacity by 23.7 percent, JetBlue increased capacity by 20.6 percent, and Southwest increased by 8.8 percent. For the network carriers, capacity growth was principally the result of increases of 8.9 percent at Continental, 4.4 percent at Alaska, and 2.0 percent at United. Evidence of carrier capacity restraint includes:

- As of November 2006, Delta's domestic capacity dropped by 14.0 percent year-over-year while its system-wide capacity was down 7.0 percent year-over-year, highlighting a focus shift toward international flying. Delta

expects 2007 ASM growth of 2.0 percent to 4 percent, down 3.0 percent domestically, and up 14.0 percent to 16.0 percent internationally[21].

- American's system capacity was down 4.0 percent year-over year[22]. For the year ended March 2007, American's domestic capacity was down 3.1 percent while its international capacity was down 1.3 percent[23].
- For 2007, United is projecting 1.0 percent or less growth in ASMs across mainline and affiliated carrier service[24].

Since 2000, airlines have shifted a significant percentage of their flying to their affiliated partners operating regional jets on their behalf. Regional jets have also been increasing in size, from the initial 35- to 50-seat aircraft to regional jets seating more than 70 passengers. Regional jet operations by affiliated carriers are a less expensive way for network carriers to provide services to smaller destinations – maintaining broad service coverage – while optimizing revenues and minimizing costs. Between 2000 and 2007, regional jet capacity, as a percentage of domestic seats, has grown from 5 percent to approximately 19.0 percent in 2006 and 2007. As the carriers have worked to refine their cost structures, mainline carriers have in some cases put their long-standing regional provider services out to bid, denying incumbents an automatic renewal. For example:

- Continental replaced a portion of ExpressJet flying with service by Chautauqua
- United replaced some of Air Wisconsin's flying with SkyWest
- Delta is making all incumbents bid to retain flying
- Northwest will launch[25] its own subsidiary, Compass, in May 2007, to compete with and pressure Mesaba and Pinnacle – two of its current regional providers

Though these changes may reduce the cost component for mainline carriers, the ability to expand regional feeder service may be limited as airlines may be approaching the scope limits[26] of the activity that can be performed by regional

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[21] Calyon Securities Delta Air Lines Update, March 29, 2007.
[22] Airline Business, January 2007.
[23] Aviation Daily, April 6, 2007.
[24] Morgan Stanley UAUA 10K Review, April 2, 2007.
[25] Aviation Daily, April 6, 2007.
[26] Scope limits, in general, place restrictions on the amount and type of flying that can be done by affiliated airlines on behalf of the mainline carrier. These restrictions vary between carriers and can include limitations such as the size and number of aircraft being flown, length of journey served, and percentage of operations, for example.

partners. Should this be the case, the airlines' ability to further refine their route structures through increased regional carrier flying may not be possible. One analyst believes it will be "difficult for airlines to realize substantial changes in scope clauses with 2008-2010 pilot contract negotiations"[27].

As shown in Exhibit 5-3, overall, the U.S. domestic airline industry is not highly concentrated, in terms of carrier domination. The top three carriers, in terms of capacity, account for approximately 40.0 percent of total domestic capacity, while the top five carriers account for approximately 60.0 percent of domestic capacity.

Exhibit 5-3: U.S. Airline Domestic Service Concentration – Share of Weekly Seat Capacity (December 11, 2006)

		Low Cost Carriers		Network Carriers		Other Carriers	
Airline	**Capacity Share**	**Airline**	**Share**	**Airline**	**Share**	**Airline**	**Share**
Southwest	14.5%	Southwest	14.5%	American	14.0%	Other	14.8%
American	14.0%	JetBlue	4.0%	United	11.1%		
United	11.1%	AirTran	3.7%	Delta	10.8%		
Delta	10.8%			US Airways	9.2%		
US Airways	9.2%			Continental	9.1%		
Continental	9.1%			Northwest	6.6%		
Northwest	6.6%			Alaska	2.2%		
JetBlue	4.0%						
AirTran	3.7%						
Alaska	2.2%						
Other	14.8%	**Total Low Cost**	**22.2%**	**Total Network**	**63.0%**	**Total Other**	**14.8%**

Source: Innovata, Airline Data, 12/11-12/17/2006 – Continental U.S. Only

This example illustrates that the national system is much like that at Logan, with capacity spread across many carriers with significant competition and opportunity. Should a carrier significantly alter operations, several carriers are poised to absorb service opportunities.

Exhibit 5-3 also illustrates that LCCs account for approximately 25.0 percent of U.S. domestic capacity (allocating a portion of the "other" based upon 2006 annual statistics shown later) and that network carriers account for the majority of domestic capacity. Due to their rapid expansion, LCCs have a significant impact on the market relative to their proportion of activity.

[27] Prudential Equity Group, LLC Research, Embraer-Empresa Brasileira de Aeronautica S.A., April 12, 2007.

5.3 NETWORK CARRIERS

In recent years network carriers have cut their costs significantly, shedding hundreds of millions of dollars in annual expenses, particularly labor costs, as well as shifting more of their service to their lower-cost regional affiliates, many of whom operate smaller regional jets. However, this effort has been offset by the rapid rise in fuel expenditures, which has grown substantially as a percentage of operating costs. This increase has meant that jet fuel has gone from approximately 15.0 percent of airline expenses in 2000 to 27 percent in 2006, seriously compromising carrier gains in cost cutting and route efficiency, and creating further financial challenges.

Network carriers have consistently earned a yield premium over LCCs and this trend is expected to continue where network carriers provide advantageous services. As part of their restructuring efforts, network carriers have refined route structures, shedding many routes where direct low cost carrier competition was significant and yield premiums did not adequately warrant continued service (e.g. reductions in the New York/Florida markets by Delta and its Song subsidiary as jetBlue increased services). Though growth in yield is expected to continue in 2007, it is anticipated that growth will occur at a slower pace. Network carriers have been able to leverage their position and the strength of the economy in order to charge premiums for enhanced service and network breadth. Continental Airlines increased 1st quarter 2007 seat capacity by 5.0 percent and grew unit revenues by 5.0 percent as well[28]. Strong international route networks attached to these carriers has also been beneficial because this represents higher yielding traffic and reduced competition. Delta projects that its international revenues will grow from 35.0 percent of total revenues to 50.0 percent within the next five years. The carrier is building many long and thin routes[29] (e.g. New York – Budapest) and installing new lie-flat beds in business class to drive increased premium cabin revenues. The carrier has been shifting aircraft out of its domestic system, retrofitting the interiors, and utilizing these for international services, helping it restrain overall growth. American Airlines recently commenced a business class product upgrade across its international fleet and United Airlines has announced plans to upgrade both its first and business class international products.

[28] Morgan Stanley, 1Q2007 LUV Report, April 4, 2007.
[29] “thin routes” are those routes with limit number of daily passengers volumes.

For many network carriers, international growth has become a principle focus with significant international destination increases since 2000 from their hubs, including:

- Continental – Newark (EWR) destinations have grown from 40 to 70
- Delta – New York (JFK) destinations have grown from 22 to 35
- United – Washington (IAD) destinations have grown from 8 to 23
- US Airways – Philadelphia (PHL) destinations have grown from 16 to 34

5.4 LOW COST CARRIERS

For the LCCs, several years of extremely rapid expansion have caused operational concerns as well as competition among themselves as well as with the network carriers. The low cost carrier model has been built through aggressive expansion, principally focusing on point-to-point markets, and initially focusing on second tier routes and cities. To provide perspective, ten years ago the LCCs were focused principally on short-haul markets. Today, LCCs provide almost 30.0 percent of seats in short-haul markets in the U.S., but also provide about 19.0 percent of long-haul seats. LCCs also have begun to add longer haul leisure markets in the Caribbean.

As the LCCs have increased in number and expanded services, route opportunities have become more challenging. To continue growth, the LCCs have changed plans and in some cases are competing directly with network carriers, and in others, competing directly with each other. In developing their service programs, some of the LCCs have taken a broad challenge against the network carriers. This has been seen in Southwest's expansion into Denver, Washington Dulles, and San Francisco in direct competition with United and in direct competition with Frontier in Denver. In Philadelphia, Southwest developed service to compete with US Airways. Southwest has been challenged in terms of net revenue development in the recent past. For the 3rd quarter of 2006, net revenue was 70.0 percent lower than in 2005, and for the 1st quarter of 2007, RASM growth was 1.0 percent compared to a 7.2 percent increase in capacity. In Boston, jetBlue has become a significant passenger carrier at the Airport adding destinations from Florida to California to the Caribbean, competing with network carriers like American, Delta, United, and US Airways. Since 2004, this carrier has grown its Boston service from approximately 91 weekly departures to more than 315 weekly departures[30]. JetBlue has been facing numerous well publicized challenges due to its rapid expansion in terms of its operational

[30] OAG Schedule Files

performance and its ability to capture business travelers. Another low cost carrier, AirTran, has also been expanding rapidly, which include its operations in Boston. This carrier competes directly with Delta in Atlanta and from its base in Orlando.

While these carriers will continue to grow, their networks are anticipated to grow at a slower rate than in the recent past :

- Southwest is forecasting 7.0 to 8.0 percent growth for 2007, lower than its usual 8.0 to 10.0 percent growth pattern, but in line with the current state of the industry[31]
- jetBlue is projecting 2007 growth of 11.0 to 14.0 percent versus the company's previous projection of 10.0 to 20.0 percent growth while the company focuses on cost cutting programs and expanding its reach to the business traveler community[32]
- AirTran had been growing 20.0 to 25.0 percent per year, but has projected a growth level of approximately 9.0 to 11.0 percent in 2008 while at the same time the carrier is postponing some aircraft deliveries for 2007 and 2008 to 2009 and later

As with the network carriers, these carriers will continue to grow service while looking for opportunities to drive increased yields and maintain operating costs.

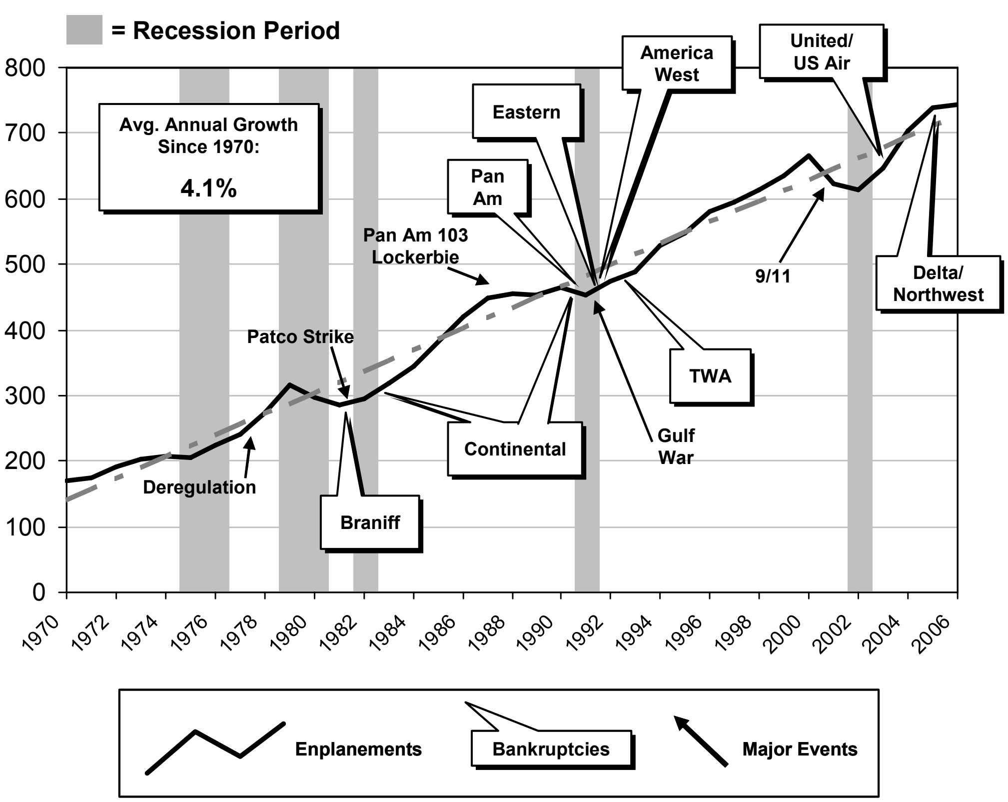
5.5 HISTORIC SYSTEM SHOCKS AND RECOVERIES

The airline industry is extremely cyclical – constantly being affected by economic and political events. Industry traffic has declined during all of the economic recessions of the past decades. Many of those recessions have coincided with other shocks such as the PATCO air traffic controllers strike in the early 1980s, the Gulf War in 1990/91, and several airline liquidations and reorganizations in the early 1990s and again in the first half of this decade (see Exhibit 5-4 below). Also, political "shocks" such as the events of 9/11 and the failed liquid bombing attack of August 2006 have challenged and changed the airline environment significantly, also causing passenger travel falloff and gradual recovery cycles.

[31] Morgan Stanley, 1Q2007 LUV Report, April 4, 2007
[32] Airline Business, December 2006

In all cases the industry has recovered and growth in air passenger traffic resumed. In some cases, significant capacity reductions followed shocks – e.g. bankruptcy reorganization caused many carriers to reduce their fleets and networks while the events of 9/11 saw the U.S. industry reduce capacity by approximately 13.0 percent, before gradually rebuilding capacity in succeeding years as traffic resumed growth. From 1970 to 2006, domestic passenger enplanements have increased at an average annual rate of 4.1 percent.

Exhibit 5-4: Airline Industry Shocks and Recoveries, U.S. Domestic Revenue Enplanements, (In Millions, 1970 to 2006)



Source: Air Transport Association

Though recovery has occurred after each shock, "IATA", the International Air Transport Association, on April 4, 2007, warned of the fragile nature of carriers' balance sheets, advising that carriers have not been able to use the increased revenues received to bolster their balance sheets significantly. "Balance sheets for U.S. airlines in particular have deteriorated significantly, because of the losses of recent years," warns IATA. "High fuel costs prevented any accumulation of cash from the

revenue boom of the past three years"[33]. It is important to realize that this fragile condition could drive further bankruptcies and consolidation activities in the next down cycle.

5.6 THE FUTURE

The U.S. airline industry posted an operating income profit in 2006 of approximately $4.3 billion. For 2007, it is anticipated that airlines will continue restrained expansion as cost reduction and revenue optimization programs continue. Fuel pricing remains volatile and could significantly impact airline profitability depending upon the scope and duration of fuel price shocks.

Longer-term, industry leaders foresee another round of industry consolidation, which may impact both network and LCCs. A precursor to this process may have been US Airway's attempted takeover of Delta Air Lines in November 2006 and AirTran's current offer to acquire Midwest Airlines. As presented, LCCs are beginning to compete more directly with each other and with network carriers and this may force consolidation among their ranks, with carriers such as Spirit or Frontier becoming potential targets.

Industry sources expect continued growth in the airline industry, though at a slower pace. In looking at net income for 2007, IATA predicts a net loss for the U.S. industry of $600 million (net) versus the net loss of $5.7 billion in 2006 (which included significant reorganization expenses). For 2008, IATA projects net profits for the U.S. industry of $2 billion. One of the key assumptions in the IATA forecast is that "an economic recession is not forecast during the next two years. Nonetheless, airline balance sheets were stronger going in to the past five recessions than they are today. Outside the U.S. balance sheets are healthier, but still fragile in the face of the sort of shocks that the industry has suffered in the past decade."[34]

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[33] Air Transport Intelligence News, April 4, 2007.
[34] Air Transport Intelligence News, April 4, 2007.

5.7 Traffic and Capacity Trends

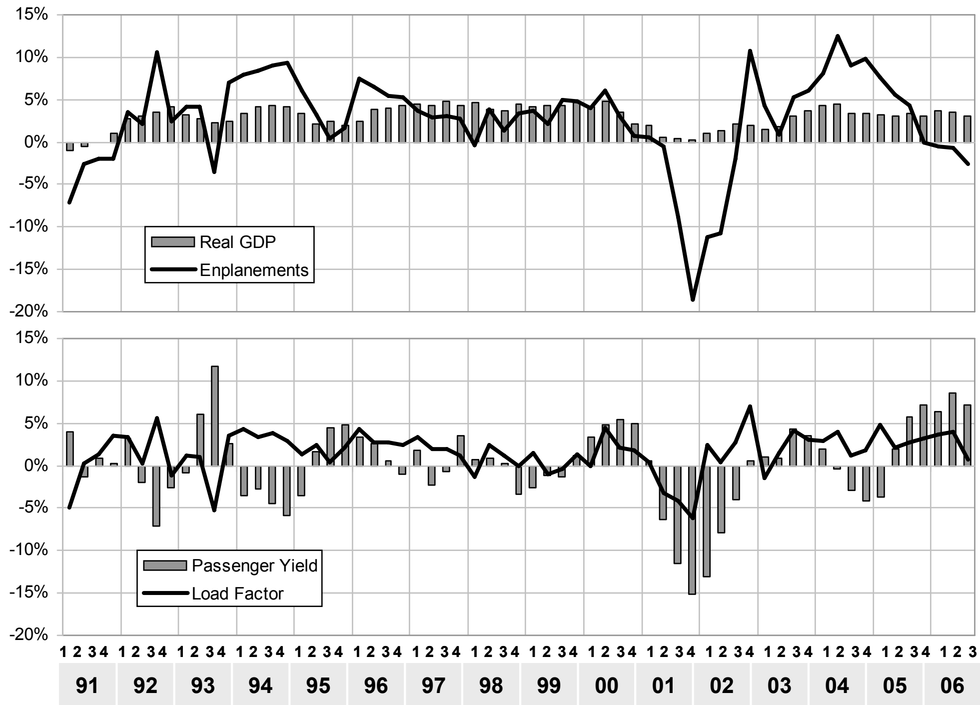
5.7.1 Passenger Traffic

As stated in a previous chapter of this report, over the long term air travel demand has been strongly correlated to growth in GDP. During periods of economic expansion passenger traffic typically grows and during economic contractions traffic typically declines. However, recent experience provides several examples of how this scenario does not always hold true – as other external influences can affect airline and passenger behavior.

Looking at the last major economic downturn, in 1991, passenger traffic growth did not return until the 1st quarter 1992, when real GDP increased by 2.3 percent. The nation experienced positive growth in real GDP over the next nine years, and passenger enplanements increased in every quarter except for 3rd quarter 1993 and 1st quarter 1998. Industry traffic reached a peak level of more than 173 million enplanements[35] in 3rd quarter 2000. Then, as the stock market tumbled and economic growth slowed following the events of 9/11, air passenger growth also slowed. In the latter half of 2001 real GDP growth slowed significantly and passenger enplanements dropped by approximately 19.0 percent versus the 4th quarter of 2000. Since that time, GDP growth has returned at a modest pace (Exhibit 5-5).

[35] Enplanements for scheduled US air carriers only. Excludes charter carriers and most regional airlines.

Exhibit 5-5: U.S. Scheduled Carrier Enplanements and U.S. Real GDP, Percent Change Over Prior Year (1Q 1991 to 3Q 2006)



Source: U.S. DOT Form 41, Bureau of Economic Analysis, 2/28/07

Initially, in 2002, passenger enplanements grew significantly reflecting strong travel recovery– shown as a surge in activity, followed by a resumption of more modest growth. During the 2003 to 2004 period another spike in enplanement growth occurred, principally due to the aggressive activities of Independence Air in terms of capacity and fare initiatives as well as the continued rapid expansion of jetBlue. These activities triggered fare sales (6.0 percent to 7.0 percent lower year-over-year) and capacity increase initiatives across the industry, driving a significant jump in passenger enplanements.

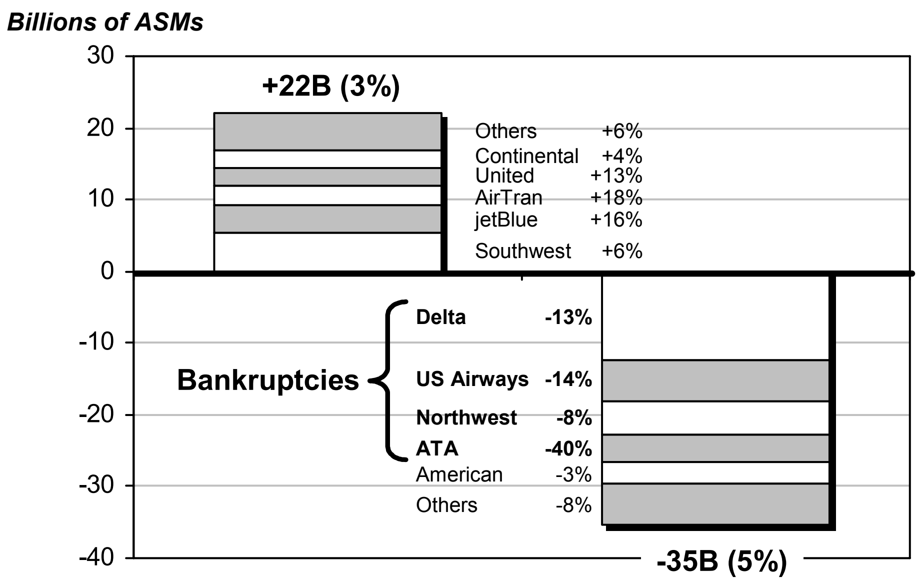
From 2005 to the 3rd quarter of 2006, enplanement levels have declined even though the U.S. is in a period of economic growth. Non-bankruptcy carriers reversed an initial period of aggressive and competitive growth and those carriers in bankruptcy significantly restructured their operations (e.g. Delta, Northwest, and US Airways). This reduction in capacity drove a modest reduction in enplanements.

Though the economy was expanding, airline capacity reductions drove increasing load factors as well as increased yields which drove a decline in enplanements as

shown in the exhibit above. This result is contrary to what would be expected based upon historical experience relative to GDP performance, though it is a short-term effect as data shows increasing capacity in 2007 which will drive increased enplanements.

Through the bankruptcy and reorganization process at US Airways and America West, ASMs for the combined entity dropped 14.0 percent from 2005 to the 3rd quarter of 2006. Historically, through American's integration of TWA in the 2000 to 2001 period, combined ASMs for the carriers dropped 13.0 percent. Exhibit 5-6 below highlights capacity changes between 2005 and the 3rd quarter of 2006, showing the significant capacity reductions among carriers in bankruptcy.

Exhibit 5-6: Change in U.S. Carrier Domestic Available Seat Miles (ASMs) (2005 vs. YE 3Q 2006)



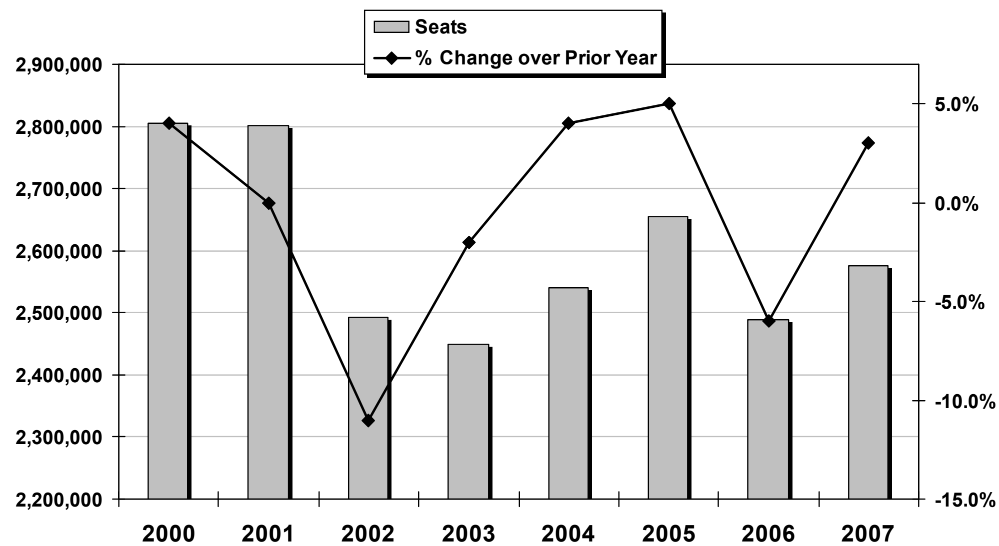
Source: U.S. DOT Form 41, Database Products, Inc. Note: Others: Skywest +13%, Midwest +12%, Frontier +8%, Horizon +5%, Mesa -8%, Spirit -14%, Comair -16%, Aloha -18%, Mesaba -29%.

5.7.2 Capacity Trend Review

In looking at capacity activity over the period from 2000 to 2007, the cyclicality of capacity additions and contractions is clear. As illustrated in Exhibit 5-7, capacity adjustments over the past six years have followed a pattern of large reductions in daily seat capacity followed by growth and then further reductions, ending with March 2007 showing approximately 3.0 percent growth in capacity versus March of 2006.

Looking back to 2001, airlines responded immediately to weakened air travel demand and escalating operating costs by significantly curtailing capacity. During CY 2002, airlines cut domestic scheduled seats by 10.9 percent and followed this with further cuts in 2003. In 2004 and 2005 the airlines added back capacity, but in a restrained manner, despite record volumes of passenger activity. In 2006, airline capacity was down approximately 6.0 percent versus 2005, based upon continued network refinements and reductions in service of those carriers operating in bankruptcy. In 2007, as noted, domestic capacity is up approximately 3.0 percent, but remains below the 2000 peak of 2,800,000 seats, with March 2007 showing just under 2,600,000 seats.

Exhibit 5-7: U.S. Domestic Scheduled Daily Seats (March 2000 to March 2007)

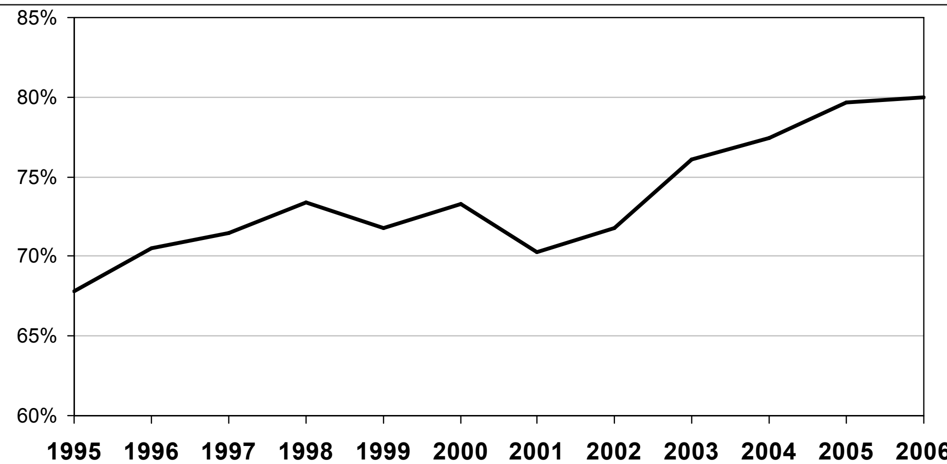


Source: Official Airline Guide

Combining the increased number of passengers and reduced number of seats, airlines are carrying more passengers with less capacity. Exhibit 5-8, shows U.S. domestic airlines had been operating with load factors in the low 70s from 1997 through 2000, with a significant dip to 70 percent in 2001 as passenger traffic declined faster than airlines could reduce capacity. From that point, load factors rose to nearly 80 percent in the 2005 to 2006 timeframe, and have now appeared to level off.

Exhibit 5-8: Rising U.S. Domestic Load Factors, (3Q 1995 to 3Q 2006)

Source: U.S. DOT Form 41



Specifically, load factors have reached new peaks in each of the last four years, with 76.1 percent in 2003, 77.4 percent in 2004, 79.7 percent in 2005, and 80.0 percent in 2006. These load factors reflect improved capacity and revenue management.

5.7.3 Aircraft Orders

Aircraft orders are constantly shifting as carriers adjust orders to reflect market activities and changes to long-range plans. At present, based upon ACAS data from March 2007, aircraft orders in place for delivery through 2011 are weighted 54.0 percent for the network carriers and 46 percent for the LCCs.

It is important to note that a significant portion of the low cost carrier aircraft orders are principally focused with AirTran and JetBlue and to be aware that both of these carriers have announced plans to slow a portion of their new aircraft deliveries to reduce their pace of expansion and solidify existing operations. On the other hand, and a reversal of sorts, network carriers now hold the greater percentage of new aircraft orders and deliveries for the period through 2011, with 54.0 percent. Additionally, American Airlines announced in March 2007 that it will selectively request advance delivery of some of the new Boeing 737 aircraft to speed retirement of less efficient aircraft.

The activity by American Airlines is believed to be the beginning of major fleet replacement programs by the network carriers. As the network carriers have addressed competitive service, cost, and revenue challenges while strengthening their operations over the past six years, significant aircraft orders have been deferred. For example, for American Airlines, in looking at retiring its MD82/83 fleet, it has to

plan for the replacement of approximately 300 in-service and 51 in-storage versions of the type. A fleet replacement program of this magnitude has a long lead time (aircraft evaluation, financing, production) and is very costly for the carrier. In looking at another aircraft type in the carrier's fleet, the airline has approximately 142 Boeing 757 aircraft in service while United Airlines operates approximately 97 of this type. For the network carriers, the fleet renewal process is extremely costly and time consuming but necessary for their long-term survival. Given the illustrative aircraft sub-fleet figures outlined in Exhibit 5-9, it is clear based upon orders in place that the network carriers have significant orders to place.

Exhibit 5-9: Current New Aircraft Order Book for U.S. Carriers (2007 to 2011)

Carrier	2007	2008	2009	2010	2011	Total
Alaska	10	7	3	6	3	29
American	0	0	0	0	0	0
Continental	2	26	21	10	10	69
Delta	10	16	20	19	0	65
Northwest	16	56	14	6	4	96
United	0	0	0	2	2	4
US Airways	13	20	36	28	6	103
Subtotal - Network	51	125	94	71	25	366
AirTran	12	16	17	10	5	60
Frontier	1	9	4	0	0	14
JetBlue	22	22	26	30	28	128
Southwest	38	29	18	10	10	105
Subtotal - LCC	73	76	65	50	43	307
Total	124	201	159	121	68	673
Majors	41%	62%	59%	59%	37%	54%
LCCs	59%	38%	41%	41%	63%	46%

Source: ACAS, December 2006

5.8 AIRLINE REVENUE AND EXPENSES

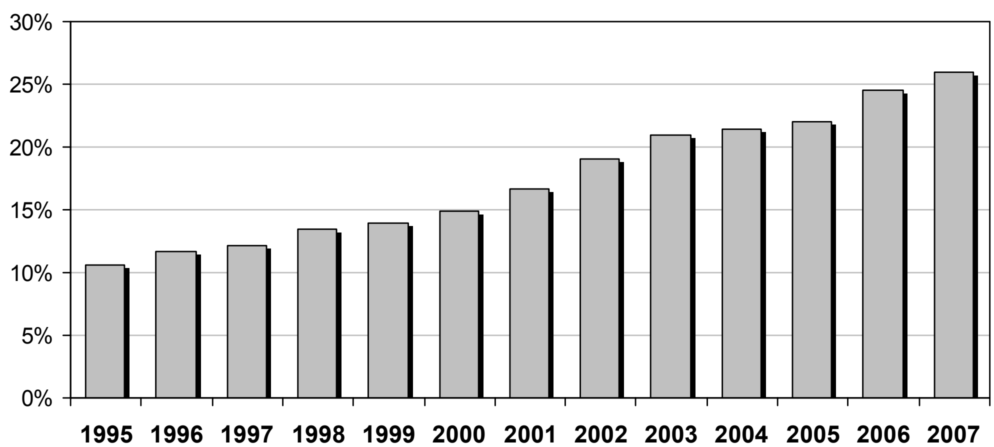
5.8.1 Revenues

During the past decade, changing travel patterns, particularly among business passengers, have had a significant effect on airline revenues. With the explosion of the online ticketing through airline and other travel service company providers, it has

become increasingly easy for the traveling public – business and leisure travelers alike – to utilize low-yield, non-refundable fares that were initially targeted toward leisure passengers. At the same time, network airlines have been able to extract a yield premium from a sufficient number of passengers for their premium products (e.g. first and business class services, enhanced seating areas) such that these services are being enhanced and expanded by several carriers.

Though the network carriers are adjusting service offerings to reach a broad spectrum of customers – premium to price sensitive - it is important to realize that the percentage of seats provided to the marketplace by LCCs has risen from just over 10.0 percent in 1995 to 26.0 percent in 2007 (Exhibit 5-10), though growth appears to be leveling off, which ties to reports from both jetBlue and AirTran of more moderate going-forward growth. As previously discussed, LCCs have expanded rapidly and are now faced with challenges in finding new markets, competing amongst themselves, competing with network carriers, and controlling rising costs which will now be spread across slower network growth, driving up unit costs.

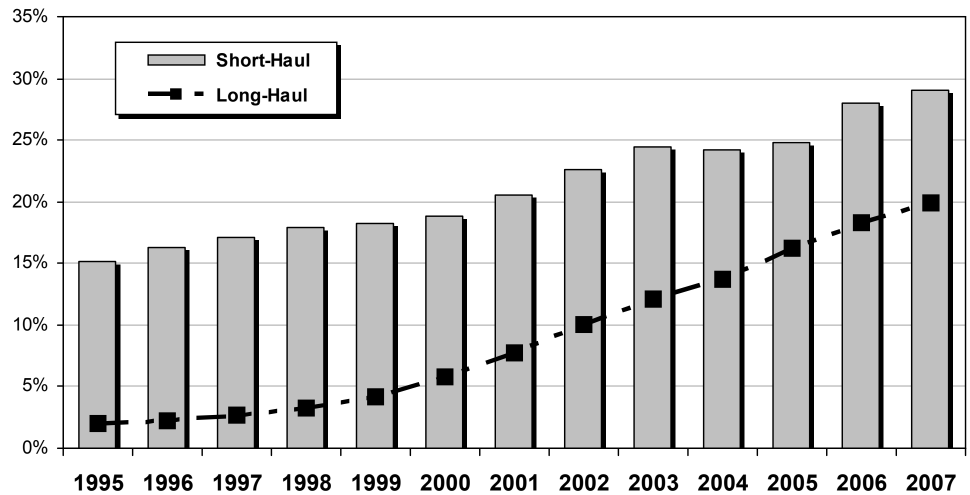
Exhibit 5-10: Percent of Low Cost Carrier Share of U.S. Domestic Seats, (1990-2007)



Source: Official Airline Guide.

Historically, LCCs had focused their competition in the short-haul markets. Over the past seven years, however, LCCs have expanded their networks and introduced a significant amount of long-haul flying (Exhibit 5-11). Initially, Southwest added transcontinental services. More recently, JetBlue started operations and added significant long-haul service from its JFK (New York) hub to cities in California and Washington. Today, LCCs provide approximately 29.0 percent of short-haul capacity and 19.0 percent of long-haul capacity in the U.S.

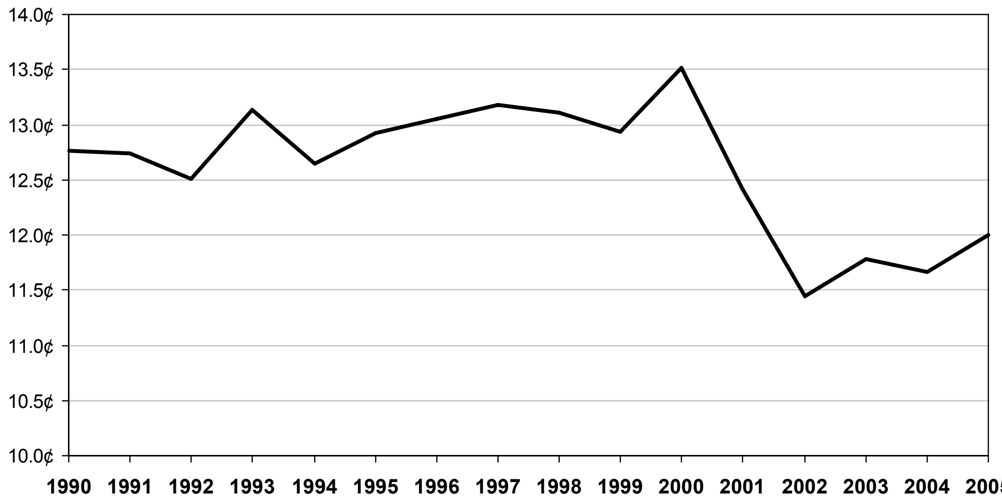
Exhibit 5-11: Low Cost Carriers Share of Short-Haul and Long-Haul Capacity, (1995-2007)



Source: Official Airline Guide, short-haul is trips under 500 miles.

Over the past five years, the average nominal yield for domestic entities has been recovering from a significant decline in 2001 (Exhibit 5-12). The average yield declined from approximately 13.5 cents to 11.5 cents, having reached its low point following the events of 9/11. Though network carrier yields remain higher than those of their low cost carrier competitors, all yields dropped significantly in 2001 and have been slowly recovering since that time. Overall, the effect of the LCCs, has been to drive the average industry yield downward. Network carriers can and do attract a higher and increasing yield than LCCs as demonstrated in Exhibit 5-13. It is important to note from this exhibit that low cost carrier yields have been increasing as well. Yield increase is a goal of the LCCs. JetBlue has recently decided to make its flights available for purchase through global distribution systems – the reservation systems used by travel agencies to book airline, hotel, and other travel arrangements, and favored by business travelers, so that the carrier can capture a larger share of the higher yielding business traveler traffic. Southwest Airlines, which has created a reputation as a low fare airline would like to increase its pricing, but is concerned that price increases will negatively affect its low cost image and drive passengers away.

Exhibit 5-12: Domestic Nominal Yields Reflect 2001 Shock and Gradual Recovery (1990 to 2005)



Source: Air Transport Association

Exhibit 5-13: Network Carrier and Low Cost Carrier Yields (2004 through YE Sept 2006)

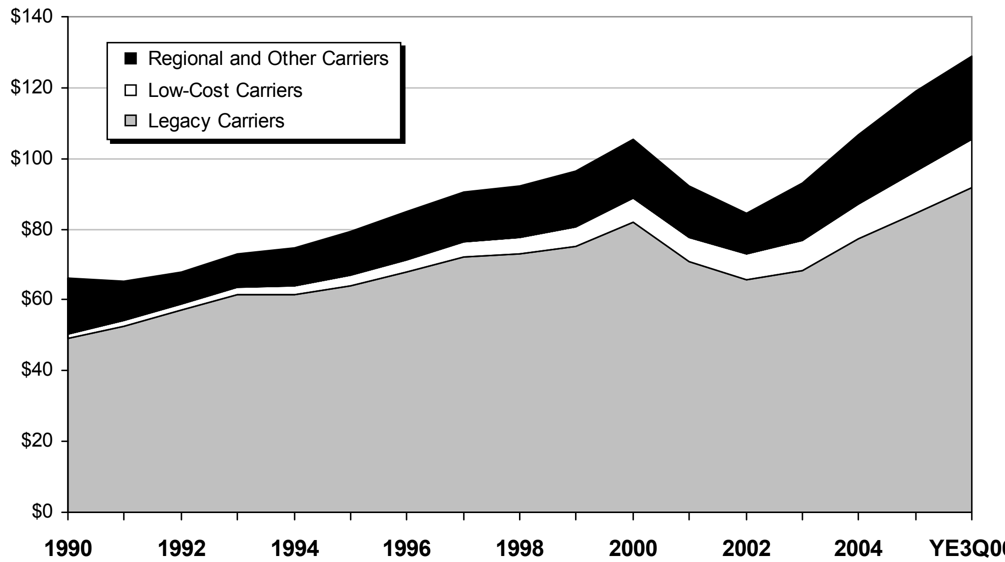
	Domestic Yield (¢)			2004 YE 3Q 06
Carrier	**2004**	**2005**	**YE 3Q06**	**CAGR**
Low Cost Carriers				
JetBlue	7.59¢	7.86¢	8.86¢	5.3%
AirTran	11.49¢	11.83¢	12.18¢	2.0%
Southwest	11.40¢	11.65¢	12.45¢	3.0%
Spirit	8.54¢	10.23¢	11.01¢	8.9%
Average Yield	**10.53¢**	**10.82¢**	**11.61¢**	**3.3%**
Network Carriers				
Northwest	13.23¢	13.13¢	14.17¢	2.3%
Continental	12.60¢	12.75¢	13.50¢	2.3%
US Airways	12.25¢	12.73¢	14.41¢	5.6%
United	11.13¢	11.75¢	12.87¢	5.0%
Delta	11.81¢	11.73¢	13.32¢	4.1%
American	11.10¢	11.45¢	12.31¢	3.5%
Average Yield	**11.83¢**	**12.09¢**	**13.28¢**	**3.9%**

Note: CAGR = Compound Average Growth Rate
Source: U.S. DOT, O&D Database, Database Products, Inc. (U.S. Airways and America West combined.)

Though the average yield declined from 13.51 cents in 2000 to 12.42 cents in 2001 and 11.45 cents in 2002 and passenger numbers declined to 614 million in 2001 and 589 million in 2002, from the 2000 high of 660 million, yields and passengers have grown since 2002, driving increased total U.S. industry revenues. By 2004, annual industry revenues had recovered sufficiently to surpass the 2000 peak of $105.5

billion by reaching $106.8 billion. By the third quarter of 2006 total U.S. Airline revenue had reached approximately $128.7 billion, more than 20.0 percent higher than the 2000 peak.

Exhibit 5-14: U.S. Airline Industry Revenues 1990 Through Sept 2006 (In $ Billions)



Source: U.S. DOT Form 41, note network carriers include American, Continental, Delta, Northwest, United, US Airways and low cost carriers include AirTran, Frontier, jetBlue, and Southwest

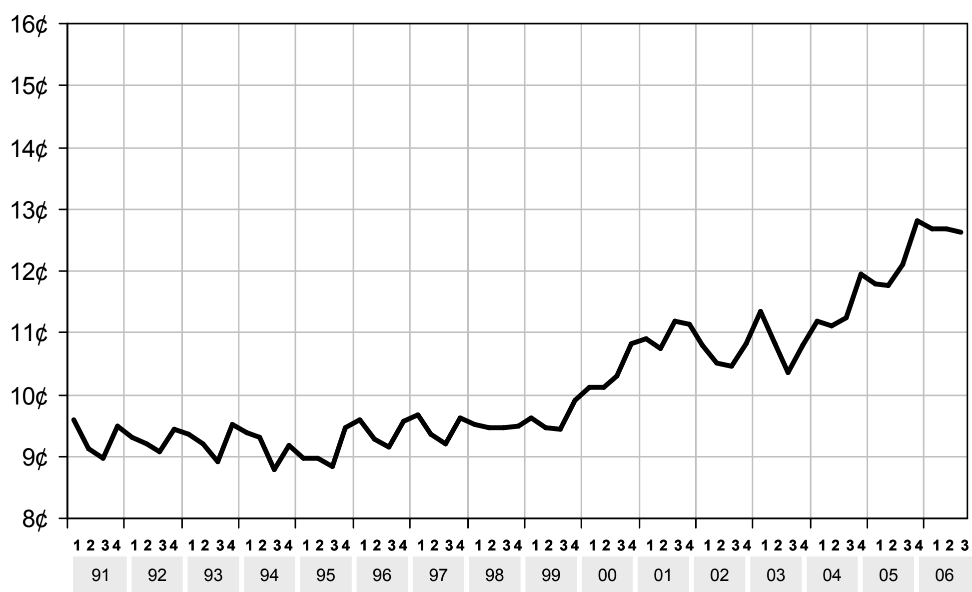
In looking at revenue generation distribution among network carriers, LCCs, and regional carriers, as a percentage of total group revenue, an interesting picture develops. In 2000, network carriers produced 78.0 percent of revenues for the group, or $82 billion, while LCCs produced 6 percent ($6.8 billion) and regional carriers produced 16.0 percent ($16.7 billion). Over the first three quarters of 2006, the same revenue split had changed, with network carriers producing 71.0 percent of revenues ($91.6 billion), LCCs producing 11.0 percent of revenues ($14 billion) and regional carriers producing 18.0 percent ($23.2 billion). This change is important for several reasons. All carrier types have grown their revenues, but growth has been more rapid for LCCs (reflective of their rapid expansion) and regional carriers (reflective of their increased use by network carriers). 2005 revenue was 71.0 percent greater than 2000 revenue for LCCs while regional carrier revenue in 2005 is 35.0 percent greater than in 2000. Network carrier revenue was 3.0 percent greater in 2005 than in 2000.

5.8.2 Airline Costs

While U.S. industry airline revenues grew strongly between 2002 to 2005, airline costs grew even faster. Airlines – both network and LCCs – have been emphasizing efforts for cost reduction. Focus areas include staffing costs – flight crews, ground staff and management, aircraft ownership and maintenance, fuel, distribution, and other support activities.

In considering the unit cost chart shown in Exhibit 5-15, the effects of significant fuel price increases and reduced flying can be seen through the unit cost increase from approximately 11.2 cents in the fourth quarter of 2003 to 12.8 cents at the end of 2005, before a slight reduction occurred in 2006. Cost containment is key to long-term profitability, though increased profits lead to labor requests for greater profit sharing which can then drive cost increases, reducing profits. As carrier expansion slows, it becomes critical to drive increased revenues through higher load factors as well as fare increases.

Exhibit 5-15: U.S. Scheduled Carrier Nominal Unit Operating Costs, (1Q 1990 to 3Q 2006)



Source: U.S. DOT Form 41

Network carriers have made significant progress in their efforts to reduce labor costs. During the third quarter of 2006, labor represented 23.6 percent of total costs versus fuel which represent 26.7 percent, and ownership which represented 8.4 percent. Labor savings have significant potential for increased bottom-line results. At established network and LCCs, seniority, pensions, work rules, and other issues

combine to drive higher costs. For network carriers, these costs are somewhat offset by higher yields as shown in Exhibit 5-16 below. Network carrier contraction often entails layoffs of junior staff, keeping more highly paid staff operating fewer routes. For LCCs, continued expansion spreads these higher costs across ever increasing capacity, keeping unit costs lower, on average, enabling profitability with lower unit revenues.

Exhibit 5-16: Cost Per Available Seat Mile (CASM) for Network and Low Cost Carriers (3Q 2000 and 3Q 2006)

	CASM		RASM	
Carrier	Q3 2000	Q3 2006	Q3 2000	Q3 2006
Network Carriers				
Alaska	10.2 ¢	12.5 ¢	11.0 ¢	12.2 ¢
American	10.6 ¢	12.6 ¢	11.7 ¢	12.5 ¢
Continental	11.2 ¢	16.8 ¢	11.9 ¢	15.9 ¢
Delta	9.6 ¢	15.2 ¢	10.9 ¢	16.1 ¢
Northwest	10.5 ¢	15.2 ¢	11.9 ¢	17.1 ¢
United	11.9 ¢	14.3 ¢	11.5 ¢	15.2 ¢
US Airways	14.3 ¢	16.2 ¢	14.2 ¢	17.2 ¢
Average	*11.2 ¢*	*14.7 ¢*	*11.9 ¢*	*15.2 ¢*
Low Cost Carriers				
AirTran	9.6 ¢	9.9 ¢	10.7 ¢	9.8 ¢
Frontier	10.2 ¢	11.2 ¢	13.4 ¢	11.4 ¢
JetBlue	7.8 ¢	7.9 ¢	7.2 ¢	8.3 ¢
Southwest	7.7 ¢	8.7 ¢	9.7 ¢	9.8 ¢
Average	*8.8 ¢*	*9.4 ¢*	*10.6 ¢*	*10.9 ¢*

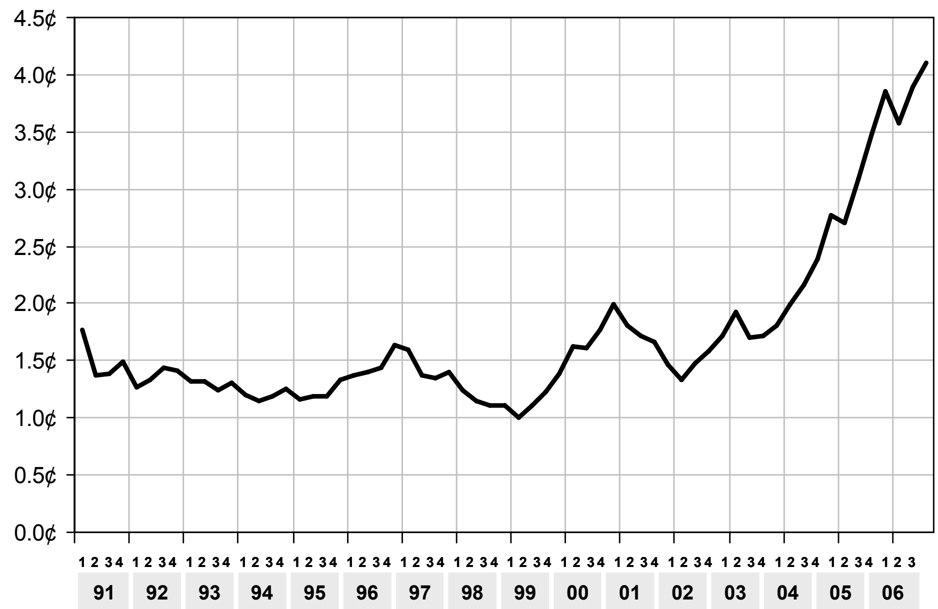
Source: U.S. DOT Form 41

Overall, a tiered cost structure separation of the industry remains, with LCCs having unit costs between 8 and 11 cents and network carriers having unit costs between 12 and 17 cents, non-stage-length adjusted as the analysis focuses on domestic service and does not included regional carriers. Segmentation of unit costs provides an interesting view – summarizing a composite of crew seniority, network structure, overhead cost differences between the two products. It is important to couple this cost structure with revenue generation to relate both parts of the equation as high cost with high revenue and low cost low revenue operations can both be successful (e.g. Four Seasons Hotels vs. Hampton Inns).

Fuel cost per ASM has more than doubled since the end of 2000, rising from 1.9 cents to 4.1 cents per ASM by the 3rd quarter of 2006 (Exhibit 5-17). The increase in fuel prices has dampened the financial recovery underway as the airlines solidified

their positions in the post-9/11 environment. Activities optimizing capacity and pricing as well as cost controls were put in place, but the effect of the fuel price increase has offset a large portion of the progress made. Fuel, as a percentage of costs, has risen from 15.0 percent at the end of 2000 to 27.0 percent by the third quarter of 2006. Over the past few years, fuel hedges have an important factor in U.S. airline competition. Southwest led the industry in this area and many others have developed hedging policies to protect a portion of their fuel requirements from the significant price movements being experienced.

Exhibit 5-17: Fuel Cost Per ASM (1Q 1991 to 3Q 2006)



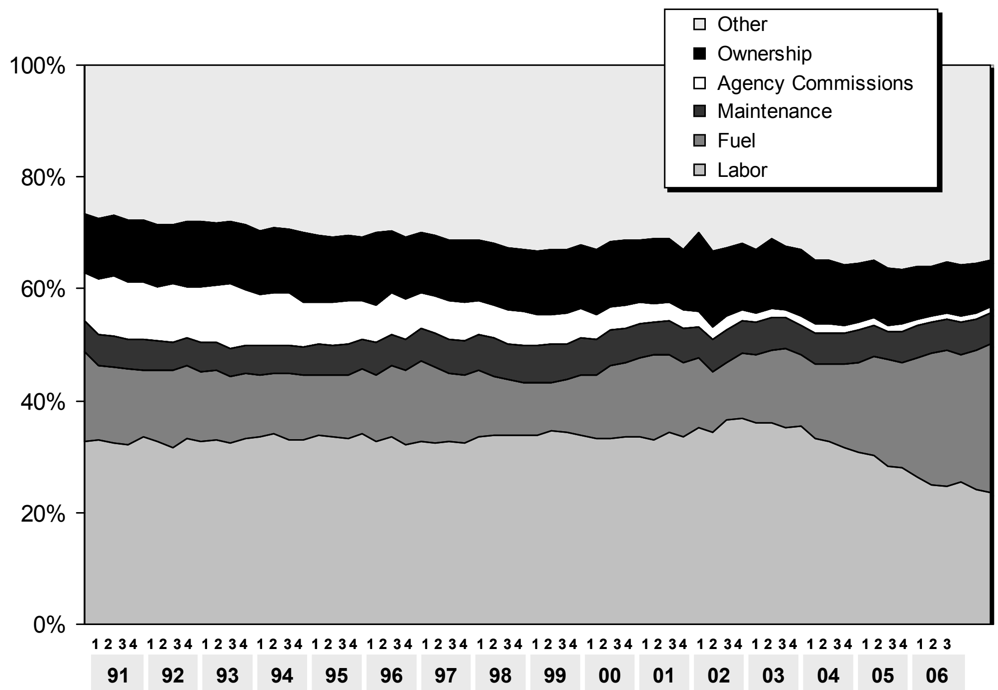
Source: U.S. DOT Form 41

Fare increases have been put in place to recover some of the increased fuel costs, though seat capacity growth lead to discounting which eroded some of the gain toward covering increased fuel costs.

To gain added perspective, Exhibit 5-18 highlights the dramatic rise of fuel as a cost component for the airlines and the relative reduction of other costs elements. Historically, fuel represented approximately 11.0 to 12.0 percent of overall operating costs. Today, as noted, that share represents approximately 27.0 percent of costs for an airline, with labor the second largest cost at approximately 24.0 percent. Fuel and labor far exceed ownership (the aircraft which support the business) which comes in at about 8.0 percent. In order to add perspective, American Airlines reported fuel costs of $1.45 billion for the three months ended December 2006. The airline

reported a profit for that quarter of $17 million. An increase it its fuel costs of 1.0 percent would add $14.5 million in expense, almost eliminating the profit earned. Looking at the third quarter of 2006, which is often the best quarter for many airlines – following the summer traffic levels – to see another view of the impact fuel can have, American spent $1.8 billion on fuel in that quarter and had a net profit of $15 million. To repeat the fourth quarter example, a 1.0 percent increase in fuel would have added $18 million to the carrier's expenses, eliminating the profit earned.

Exhibit 5-18: Fuel Has Become the Largest Cost Component For The Airlines, Surpassing Labor (1Q 1991 through 3Q 2006)



Source: U.S. DOT Form 41

5.9 AIRLINE BANKRUPTCIES AND CONSOLIDATION

The airline industry has weathered significant challenges over the past six years. During this period, several carriers entered and exited bankruptcy – American Trans Air (ATA), Delta Air Lines, United Airlines, US Airways (twice), Independence Air was created and liquidated. Northwest Airlines is the lone carrier serving Logan that remains in bankruptcy.

Delta Air Lines, which emerged from bankruptcy on April 30, 2007, accounts for approximately 19.0 percent of passenger activity at Logan and is the largest carrier in

terms of passengers. Northwest Airlines accounts for 4.0 percent of Logan's passengers and is expected to emerge as reorganized company in mid-2007.

Economic expansion and contraction, fuel price fluctuations, competitive actions, and global political events are some of the factors that continuously and significantly impact the industry's financial performance.

During the past six years speculation that significant industry consolidation would occur was high. In the end, only one consolidation occurred, with America West acquiring US Airways and combining the two carriers under the US Airways name, removing 10 percent of the combined carriers' capacity. Other consolidation activities – rumored or initiated - included United acquiring Continental, US Airways acquiring Delta, and AirTran acquiring Midwest. The United and US Airways activities did not materialize while AirTran continues its pursuit of Midwest. In the low cost carrier space, Frontier, Spirit, or ATA have been rumored as potential acquisition targets. Industry leaders now believe that consolidation activities may not occur until the next period of industry economic challenge.

For Logan, given its strong position as an O&D market, future industry consolidation is not anticipated to have a detrimental long-term effect. Initially, service disruption(s) could be experienced, but strong local demand and continued passenger growth would drive continued services by combined entities or new services by carriers providing eliminated service. Historically, passenger enplanements have grown from 14.7 million in 1980 to 22.8 million in 1990 to 27.6 million in 2000, reaching 27.6 million in 2006. Over this 26-year period, many carriers have discontinued operations at the Airport (e.g. Eastern, TWA, Pan AM, New York Air, Braniff, Peoples Express), but passenger traffic has grown. This strong passenger demand will be met though carrier names and hubs may change.

6 MASSPORT'S ABILITY TO ENSURE EFFICIENT GATE UTILIZATION

6.1 INTRODUCTION

The opening of Delta Air Lines' Terminal A on March 16, 2005 markedly changed the face of Logan Airport. With the new Terminal A, the Airport now has a total of 98 contact gates as compared to 90 previously. The Terminal A redevelopment project was facilitated in part by the downturn in passenger traffic and aircraft operations between CY 2001 and CY 2002. However, as Airport growth was expected to continue, the new terminal and gates were deemed necessary to support the long-term growth in passengers and aircraft operations while also helping to reduce landside congestion. The additional capacity was instrumental in allowing the Airport to attract jetBlue, which has become a major carrier at Logan. Additionally, the new Terminal A facilities have freed up terminal space elsewhere – facilitating a reallocation of carriers (e.g. JetBlue's move to Terminal C) that will allow Massport to compete for additional carriers, whether network, low cost, or international, something that it has been challenged in doing in the past.

Over the past decade, Massport implemented several policies and tools that provide flexibility to effectively allocate the Airport's facilities. These include an airport-wide Preferential Gate Use Policy, the use of short-term leases, and the establishment of innovative gate recapture and forced sublet provisions that have been incorporated into all new long-term leases at the Airport. The effectiveness of these policies, and the strength of the Logan Airport market, was recently put to the test with the bankruptcy filing and subsequent restructuring of Delta Air Lines. During its bankruptcy, Delta sought to reduce its operating expenses. One of the major operating expenses at Logan Airport for Delta was the terminal lease which supported Special Facility Bond Debt used to finance the Terminal A project. Over the course of late 2005 and 2006, Delta entered into substantive negotiations with Massport and bondholders to amend the terms of the Terminal A lease agreement. The subsequent settlement agreement which was presented to the bankruptcy court in January 2007, and approved in March 2007, resulted in Delta reducing the amount of leased space within the terminal by approximately one third, reducing the number of gates which it controls from 22 to 14, and reducing the term of the lease, in exchange for certain rental payments. Massport now has the responsibility to use reasonable

efforts to re-let the gates vacated by Delta. In March 2007, Massport announced that it "fully expect(s) the terminal to be rented out" within several months.[36] The move by Massport to re-let most, if not all, of the abandoned Delta gates within a six month period demonstrates the effectiveness of the re-letting provision in Massport's lease agreement with the carriers, and also the desirability of gates and terminal space at Logan Airport.

This section summarizes the current allocation of gates at Logan and describes the specific terms of certain airline lease arrangements that allow Massport to exert control over underutilized facilities, ensuring optimum utilization of the Airport's facilities. This analysis is intended to be informative and does not represent a legal opinion or complete review of Massport's leases.

6.2 GATE POSITIONS AT LOGAN AIRPORT

6.2.1 Logan Airport Terminal Gate Configurations

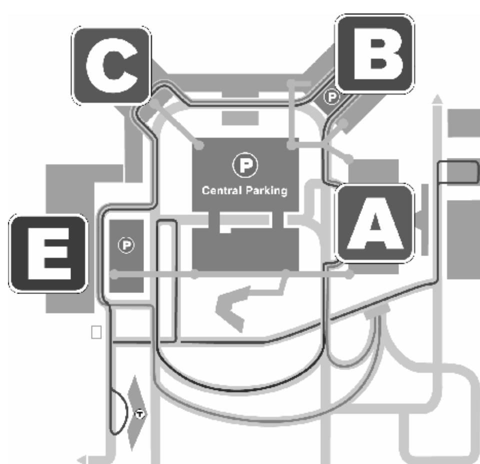
Having completed the construction of Terminal A, Logan Airport has five terminals which comprise 98 contact gates. The construction of Terminal A provided the Airport with an overall 9 percent increase in gate capacity, moving from 90 to 98 gates (the previous Terminal A had 14 gates).

Exhibit 6-1: Logan Airport Terminal Layout and Contact Gate Positions

98 Total Gates

Terminal C	
Carrier	**Gates**
AirTran	3
Continental	5
JetBlue	7
Midwest	1
United	10
Common	1
Total	27

Terminal E	
Carrier	**Gates**
Northwest	4
Common	9
Total	13



Terminal B	
Carrier	**Gates**
American	14
US Airways	20
Common	2
Total	36

Terminal A	
Carrier	**Gates**
Delta	14
Common	8
Total	22

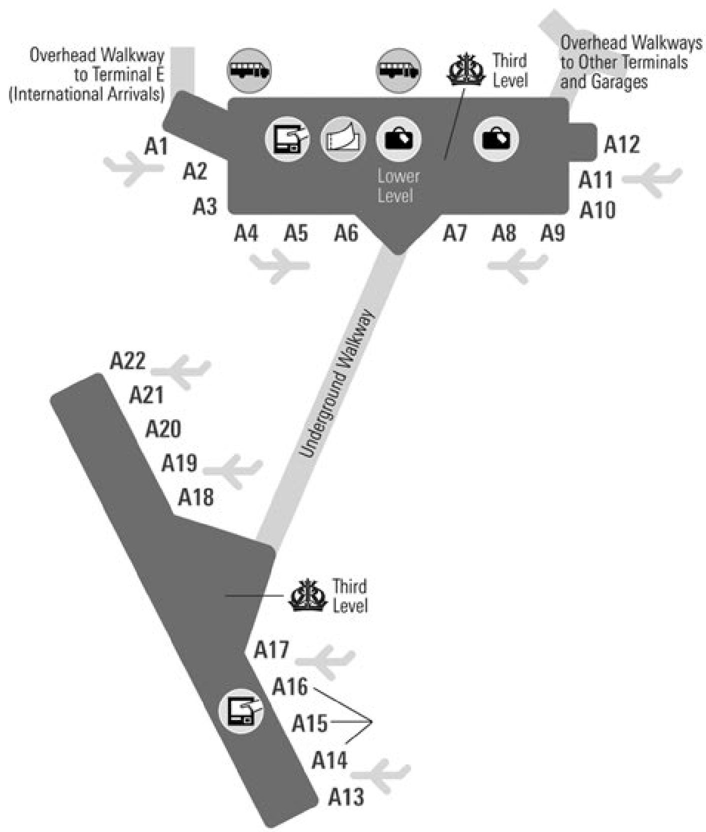
Source: Massport

[36] The Boston Globe, March 6, 2007

6.2.2 Logan Airport Terminals

Delta Air Lines opened the redeveloped Terminal A on March 16, 2005. The new $400 million state-of-the-art terminal has almost 670,000 square feet of lobby and gate space, divided between a twelve-gate main terminal building and a ten-gate satellite terminal. The new Terminal A was designed in the post 9/11 era and allows for rapid processing of passengers through the security screening areas and improved placement of food and retail concessions to maximize commercial revenues. The terminal was originally constructed for the exclusive use of Delta Air Lines, including Delta, the Delta Shuttle, and the Delta Connection. Delta's SkyTeam partners continue to operate from their existing locations; furthermore, because of the lack of Federal Inspection Service facilities, Terminal A will not be able to receive international flights.

Exhibit 6-2: The New Terminal A at Logan Airport



Source: Boston Globe Supplement, March 9, 2005

In July 2006, Massport and Delta Air Lines reached an agreement restructuring Delta's Terminal A Lease. Through the bankruptcy process it became clear that Delta would not require the amount of space leased in Terminal A and the carrier desired to reduce its going-forward obligations. In an agreement with Massport, the carrier has reduced the amount of square footage leased to 180,086 and reduced the number of gates leased to 14, two of which have dual position gates, providing 16 aircraft boarding locations. The carrier returned six contact gates and three regional jet aircraft parking positions to Massport for lease to other airlines.

Exhibit 6-3: Logan Airport Airline Operators by Terminal

Terminal Building	Leaseholders	Other Carriers
A	Delta	Delta Shuttle
B	American US Airways	Air Canada Alaska Spirit
C	Continental Cape Air* JetBlue Midwest United	
D	AirTran	
E	Northwest	Aer Lingus Aeromexico Air France Alitalia American ** British Airways Cayman Airways Finnair flyglobespan Iberia Icelandair JetBlue ** KLM Lacsa Lufthansa SATA SWISS TACA TACV Cabo Verde US Airways** Virgin Atlantic

* Cape Air provides ramp operations only from its gate in Terminal C. ** International arrivals only.

Source: Massport.

Terminal B is the largest terminal at Logan with 36 contact gates, or 37.0 percent of total airport gates (based upon 98 gates). US Airways currently leases 20 contact gates at Terminal B, the largest block of gates leased to a single airline at Logan. All of US Airways' services, including the US Airways Shuttle, operate from Terminal B. US Airways currently subleases five of its Terminal B gates to other airlines; one to Alaska, one to Spirit Airlines, and three to Air Canada. American leases 14 contact gates in Terminal B. Several of the gates are utilized for American Eagle operations. The remaining two Terminal B gates are Common contact gates.

Terminal C is the second largest terminal at Logan with 27 contact gates. The leaseholders in Terminal C are AirTran, Continental, JetBlue, Midwest, and United. United is the principal leaseholder in Terminal C with ten gates, or 37.0 percent, of the terminal gates. United subleases one of its gates to AirTran for use in addition to the three gates leased directly by AirTran from Massport. JetBlue is currently the second largest gate holder at Terminal C, leasing eight gates which will rise to 11 by November 1, 2008. Continental is currently operating from five leased gates in Terminal C. Midwest leases one gate in Terminal C and Cape Air utilizes a Common gate, held by Massport, in the terminal.

Terminal E, which primarily handles international arriving flights that require federal inspection services, has a total of 13 gates. Four of the Terminal E gates are leased by Northwest Airlines and used for domestic services while its international service to Amsterdam is conducted from a Common gate in the terminal. The remaining Common Terminal E gates are used for select domestic carrier international arrivals and by most foreign carriers for arrivals and departures.

6.3 AIRPORT-WIDE PREFERENTIAL GATE USE POLICY

Massport's preferential use policy is applicable to all gates at Logan Airport. Under conditions specified in the policy, Massport may schedule arrivals and departures at a gate by carriers other than the tenant for any period that the tenant is not using the gate. The tenant carrier must permit the carrier being accommodated under the policy to use the holdroom, loading bridge, baggage claim, and other related facilities required for the functional use of the gate, and may assess reasonable fees for such use. If a tenant carrier fails to accommodate a carrier under the terms of the preferential use policy, then Massport may convert the gate to a common gate.

6.4 GATE RECAPTURE AND FORCED SUBLET PROVISIONS

Massport prefers to lease space at the Airport on a short-term basis, which allows Massport the requisite flexibility to ensure the Airport's limited gate resources are optimally used. However, Massport has granted long-term leases to carriers that have made significant capital investments in terminal facilities. Carriers that hold long-term leases with Massport include American, Delta, JetBlue, Northwest, and US Airways. In addition, Massport's lease with United is for one-year, with provisions for annual extensions.

In order to ensure maximum utilization of the Airport's gates, Massport's most recent long-term lease agreements negotiated with American, US Airways, Delta and jetBlue, as well as the short-term lease with United, contain language that allow Massport to regain control of leased gates should the airline tenants fail to meet certain utilization thresholds. These gate recapture provisions allow Massport to maximize the Airport's gate utilization by redistributing gates from carriers shrinking their operations at Logan to those wanting to expand. These leases also contain provisions that allow Massport to require the airlines to sublease a certain number of gates. Over time, Massport has been successful in securing more stringent gate recapture and forced sublet provisions.

Massport's lease with Northwest does not contain recapture or forced sublet provisions. The lease with Northwest was originally for six gates. However, after Northwest entered a code sharing agreement with Delta and Continental in 2003, they were forced by the DOT to give up two gates.

The specific recapture and forced sublet provisions contained in the American, US Airways, Delta, United, and JetBlue leases are described in the following sections.

6.4.1 American Airlines

American Airlines entered into a lease agreement with Massport for nine gates in Terminal B, which expires in 2010 and may be extended to 2015 at Massport's option. American also leases five additional gates in Terminal B on a month-to-month basis. The agreement contains certain provisions that allow Massport to recapture gates and related terminal and baggage space if American's average gate utilization falls below a certain "Utilization Threshold." American's average gate utilization is based on the number of jet aircraft operations per gate for a specified time period. An aircraft "operation" is defined as an aircraft departure or arrival. The

"Utilization Threshold" is based on the "Airport's Domestic Gate Utilization," which is calculated as a rolling six-month average of domestic jet operations.

American's Utilization Threshold is 75.0 percent of the Airport's Domestic Gate Utilization, which is the average number of domestic jet operations per gate for all carriers excluding American. If American's average utilization falls below the Utilization Threshold, Massport may recapture underutilized gates and related terminal space and sublet them to other carriers.

Massport's ability to recapture underutilized gates is subject to a "Cure Period" during which American can prevent the recapture by increasing its utilization to certain capacity utilization thresholds.

Exhibit 6-4: Summary of Gate Recapture Provisions in American Airlines Lease

Airport Domestic Gate Utilization	■ Daily jet aircraft operations ■ Domestic gates ■ Excludes American Airlines ■ Calculated as a rolling 6-month average
American Airlines Gate Utilization	■ Average Daily Jet Operations per Gate ■ Includes American Airlines and related carriers, except for commuter airlines and subtenants ■ Calculated as a rolling 6-month average
Utilization Threshold	■ 75 percent of Airport Domestic Gate Utilization ■ Waived if American's average jet passenger throughput per gate is equal to or higher than the average jet passenger throughput per domestic gate for all other carriers
Cure Period	■ 12 months, subject to a 12-month extension ■ 60 days if American intends to cease operations at Logan or enters liquidation
Recaptured Gates/Forced Sublet	■ Number of gates recaptured so that American Airlines' Gate Utilization would equal 85 percent of Airport Domestic Gate Utilization ■ Massport can sublet recaptured gates and related terminal space for proportional rent or, as of September 1, 2006, Massport can permanently recapture gates and related terminal space ■ In the event of a sublet, sublease terms limited to not more than one year and American can regain possession of gates by meeting certain utilization standards

Source: Lease between Massport and American Airlines, Inc., dated March 1, 1997.

6.4.2 US Airways

The lease agreement between Massport and US Airways, which expires September 30, 2023, provides for the recapture of gates and related terminal and baggage space in Terminal B if US Airways' average gate utilization falls below the specified Utilization Threshold. US Airways' average gate utilization is based on the number of operations per gate for jet aircraft. The Utilization Threshold is based on the Airport's Domestic Gate Average, which is calculated as a rolling three-month average for domestic jet operations for the first seven gates and a rolling six-month average of domestic jet operations for the remaining 13 gates.

The Utilization Threshold for seven gates in the South Wing Premises ("SWP") is 80.0 percent of the Airport's Domestic Gate Average, excluding US Airways, and will increase to 100.0 percent in 2010. For the remaining 13 US Airways gates in Terminal B, the Utilization Threshold is 75.0 percent of the Airport's Domestic Gate Average excluding US Airways. Thus, Massport may recapture underutilized gates if US Airways average jet operations per gate falls below either of these Utilization Thresholds.

The US Airways lease allows for a 90-day Cure Period for the seven SWP gates and a 12-month cure period for the remaining 13 gates. During the Cure Period US Airways can increase its utilization to certain thresholds to prevent recapture. The specific provisions in the US Airways lease agreement are summarized below.

Exhibit 6-5: Summary of Gate Recapture Provisions in US Airways Lease

Airport Domestic Gate Utilization	■ Daily jet aircraft operations ■ Domestic gates ■ Excludes US Airways ■ Calculated as a rolling 3-month average for 7 SWP gates ■ Calculated as a rolling 6-month average for remaining 13 gates
US Airways Gate Utilization	■ Average Daily Jet Operations per Gate ■ Includes US Airways, US Airways Group-owned airlines, and any US Airways code share partner, except for commuter airlines or subtenants ■ Calculated as – Rolling 3-month average for 7 SWP gates – Rolling 6-month average for remaining 13 gates
Utilization Threshold	■ 80 percent of Airport Domestic Gate Utilization for 7 gates in SWP, increasing to 100 percent in 2010 ■ 75 percent of Airport Domestic Gate Utilization for 13 gates ■ Waived if US Airways' average passenger throughput per gate is equal to or higher than the average passenger throughput per domestic gate for all other carriers
Cure Period	■ 90 days for 7 SWP gates ■ 12 months, subject to a 12-month extension, for 13 gates ■ 60 days if US Airways intends to cease Logan operations or enters liquidation
Recaptured Gates/Sublet	■ For 7 SWP gates: Number of gates recaptured so that US Airways Gate Utilization for 90 days prior to recapture notice would equal 100 percent of Airport Domestic Gate Utilization ■ For 13 gates: Number of gates recaptured so that US Airways Gate Utilization for 90 days prior to recapture notice would equal 85 percent of Airport Domestic Gate Utilization ■ As of September 1, 2006, Massport can permanently recapture gates through defeasance of proportional amount of US Airways' bonds and payment of certain unamortized costs to US Airways or, at any time, Massport may sublet recaptured gates for proportional rent ■ In the event of a sublet, sublease terms limited to not more than one year and US Airways can regain possession of gates by meeting certain utilization standards
Forced Sublet	■ Massport may force US Airways to sublet up to 2 gates to other airline tenants or new entrants

Source: Lease between Massport and US Airways, Inc., dated December 19, 1996 and Amendment No. 1, dated October 1, 1999.

6.4.3 Delta Air Lines

The Amended and Restated Terminal A Lease agreement between Delta Air Lines and Massport contains provisions that allow Massport to recapture underutilized gates in Terminal A. The term of the lease began on August 16, 2001, was amended and restated as of July 1, 2006, and will expire on June 30, 2016, unless earlier terminated.

The Utilization Threshold for Delta is based upon meeting or exceeding 100.0% of the Airports' Airport Domestic Gate Utilization measure. The amended lease has provisions for a 90 day cure period and also allows Massport to permanently remove terminal space should the carrier not exceed the utilization threshold set. The lease also enables Massport to sublet up to two gates to subtenants for periods of no less than six months nor more than 24 months.

Exhibit 6-6: Summary of Gate Recapture Provisions in Delta Air Lines Lease

Airport Domestic Gate Utilization	■ Daily jet aircraft operations ■ Regional jets may or may not be included depending upon the Massport policy at the time, provided that a parallel comparison is made ■ Domestic gates ■ Excludes Delta Air Lines ■ Calculated as rolling 90-day average
Delta Gate Utilization	■ Average Daily Jet Operations per Gate, measured on basis of 14 gates ■ Includes Delta and its affiliated airlines operating in Terminal A, and at Delta's election, jet operations of forced subtenants in Terminal A ■ Excludes non-jet aircraft ■ Includes Regional Jet aircraft only to the extent permitted by Airport-wide policy ■ Calculated as rolling 3-month average
Utilization Threshold	■ 100 percent of Airport Domestic Gate Utilization ■ Waived if Delta's average passenger throughput per gate is equal to or higher than the average passenger throughput per domestic gate for all other carriers.
Cure Period	■ 90 days from Massport notice
Recaptured Gates	■ Massport may recapture the appropriate number of gates from Delta such that Delta's gate utilization in the 90 days prior to the final recapture notice would have been in excess of 100 percent of the Airport Domestic Gate Average for the period ■ Upon recapture, the Lease will be deemed to have been amended to delete the premises recaptured
Forced Sublet	■ Massport may require Delta to sublet up to 2 gates to other airline tenants or new entrants for a period of at least 6 months but no more than 24 months

Source: Amended and Restated Lease between Massport and Delta Air Lines, Inc., dated as of July 1, 2006

6.4.4 United Airlines

Massport entered into a lease with United Airlines on December 1, 1998 for ten gates located on Pier B of Terminal C. The term of the lease is for one year with one year extensions, with the provision that if Massport does not extend the lease for a total of at least 15 years, Massport would be required to purchase the unamortized value of a portion of the improvements made by United in Terminal C. The lease agreement with United contains recapture provisions that allow Massport to recapture gates if United's average jet operations per gate falls below 85.0 percent of the Airport's Domestic Gate Average.

Exhibit 6-7: Summary of Gate Recapture Provisions in United Airlines Lease

Airport Domestic Gate Utilization	■ Daily jet aircraft operations ■ Domestic gates ■ Excludes United Airlines ■ Calculated as a rolling 3-month average
United Gate Utilization	■ Average Daily Jet Operations per Gate ■ Includes United and affiliated airlines ■ Excludes non-jet aircraft and subtenants ■ Calculated as a rolling 3-month average
Utilization Threshold	■ 85 percent of Airport Domestic Gate Utilization
Cure Period	■ 90 days
Recaptured Gates	■ Number of gates recaptured so that United's Gate Utilization would equal 100 percent of Airport Domestic Gate Utilization ■ Lease terminates as to recaptured gates

Source: Lease between Massport and United Airlines, Inc., dated December 1, 1998.

6.4.5 JetBlue

JetBlue entered into a lease agreement with Massport on January 20, 2005 to occupy portions of Terminal C. The term of the lease is five years (until April 30, 2010), with an additional 20 automatic one-year extensions. Initially, JetBlue will occupy five gates. Commencing May 1, 2006 the carrier will take one additional gate every six months, until the airline occupies a total of 11 gates (on November 1, 2008). After this time, JetBlue will lease all gates in Pier C of Terminal C. JetBlue is to invest $9 million for renovations and improvements in the leased premises.

The lease agreement between JetBlue and Massport contains provisions that allow Massport to recapture underutilized gates at Terminal C. Until fully occupied in 2008, there is no provision for gate recapture by Massport. However, once JetBlue reaches 11 gates, the carrier must meet or exceed a quarterly test of average domestic gate utilization at the Airport.

Exhibit 6-8: Summary of Gate Recapture Provisions in Proposed JetBlue Lease

Airport Domestic Gate Utilization	■ Daily jet aircraft operations (≥100 seats, but including the Embraer 190 aircraft) ■ Domestic gates ■ Excludes JetBlue Airways ■ Calculated as rolling 3-month average
JetBlue Gate Utilization	■ Average Daily Jet Operations per Gate, measured on basis of 11 gates ■ Excludes non-jet aircraft ■ Includes Regional Jet aircraft only to the extent permitted by Airport-wide policy ■ Calculated as rolling 3-month average
Utilization Threshold	■ Until November 1, 2008: No Recapture ■ After November 1, 2008: 100 percent of Airport Domestic Gate Utilization ■ Waived if JetBlue's average passenger throughput per gate is equal to or higher than the average passenger throughput per domestic gate for all other carriers.
Cure Period	■ 90 days from Massport notice ■ JetBlue must retain Airport Domestic Gate Utilization for a period of at least 1 year from notice of default
Recaptured Gates	■ Number of gates recaptured so that JetBlue's Gate Utilization would equal 100 percent of Airport Domestic Gate Utilization ■ Lease terminates as to recaptured gates ■ Massport will reimburse JetBlue for the unamortized portion of investment made in the recaptured gates

Source: Lease between Massport and JetBlue Airways, dated January 20, 2005.

6.5 PREVIOUS EXPERIENCE RECAPTURING UNDERUTILIZED GATES

Historical experience at Logan Airport demonstrates that gate space abandoned, as the result of a major carrier retrenchment, would be rapidly re-absorbed by other airlines. For many years Eastern Airlines operated from the previous Terminal A. The carrier held a long-term lease providing preferential use of the 14 jet gates. When Eastern sharply reduced its service at the Airport after filing for Chapter 11 bankruptcy protection in March 1989, other airlines soon sublet many of its unused gates. The Eastern Shuttle, sold to Trump Shuttle, Inc., continued to operate from Terminal A. Continental Airlines, affiliated with Eastern under Texas Air, transferred its activity from Terminal B to Terminal A. Other small carriers and regional airlines also moved to occupy the empty gate space.

Massport has historically assumed an active role in ensuring liquidity in underutilized capacity. When Eastern Airlines filed for bankruptcy, Massport filed a legal petition to cancel the Eastern lease and gain possession of Terminal A. During the next 18 months, Massport worked with Eastern Airlines to bring other carriers in to occupy the gates at the terminal. In addition, Massport entered into negotiations with Eastern to buy out the remaining two and one-half years of its lease. In April 1991, Massport successfully consummated an agreement with Eastern, and took over the operation and maintenance of Terminal A.

In 1997, Massport also successfully used lease language to regain control of underutilized gates from TWA.

In 2003, Northwest Airlines gave up two of its gates to satisfy the U.S. DOT's request that they give up gates at their hub airports and at Boston following its marketing agreement with Delta Air Lines and Continental Airlines. At the time, Northwest had the lowest average gate utilization, with 2.5 turns per day. The Airport average was 4.2 turns a day. However, Northwest's lease, which dates back to the 1980s, had no gate-use requirement. Northwest now utilizes four gates in Terminal E and utilizes one Common gate in Terminal E for its Amsterdam service.

7 REVIEW OF MASSPORT ACTIVITY FORECASTS

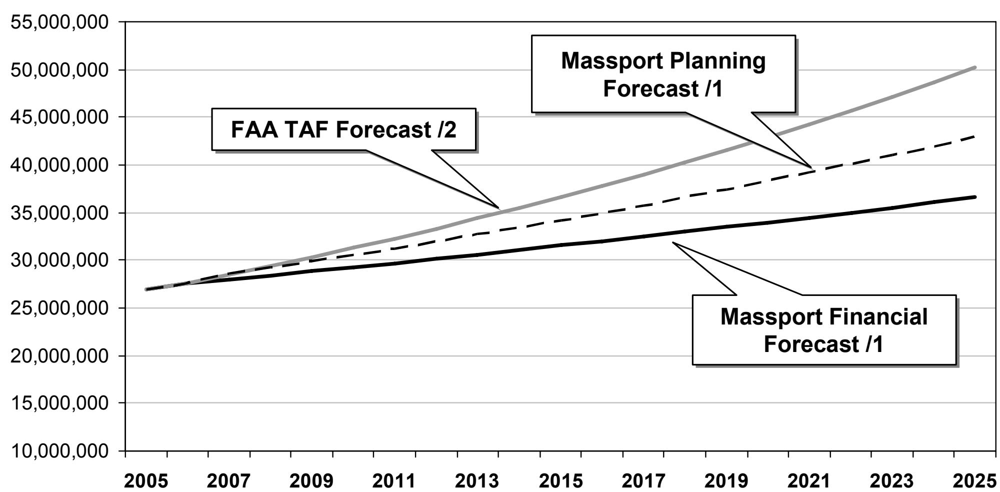
7.1 INTRODUCTION

Massport utilizes two types of forecasts to manage the future requirements of the Airport:

- A Planning Forecast, and
- A Financial Forecast

The planning forecast is used to anticipate future landside and airside infrastructure requirements and to estimate the potential environmental impacts of future Airport activity. The financial forecast, which is normally more conservative than the planning forecast, is used for financial planning purposes. This section summarizes and reviews Massport's existing forecasts for Logan Airport and the FAA's most recent projections for the Airport. Historical and forecast passenger levels for Logan Airport are illustrated in Exhibit 7-1 and summarized in Exhibit 7-2.

Exhibit 7-1: Boston Logan Passengers, (2005-2006 Actual, 2007-2025 Forecast)



Notes:
\1 Massport Financial and Massport Planning forecasts are for calendar years ending December 31.
\2 FAA Preliminary Terminal Area Forecast ("TAF") is for Federal fiscal years ending September 30.
Sources: Massport and FAA, Terminal Area Forecasts, March 2007.

Exhibit 7-2: Boston Logan Passengers (2005-2006 Actual, 2007-2025 Forecast)

Year	Massport Financial \1	Annual %. Chng	Massport Planning \1	Annual %. Chng	FAA TAF \2	Annual %. Chng
Actual\3						
2005	26,934,582	3.5%	26,934,582	3.5%	26,934,582	3.5%
2006	27,581,684	2.4%	27,581,684	2.4%	27,581,684	2.4%
Forecast						
2007	27,995,409	1.5%	28,464,298	3.2%	28,596,696	3.7%
2008	28,415,340	1.5%	29,375,155	3.2%	29,240,232	2.3%
2009	28,841,571	1.5%	30,315,160	3.2%	29,899,410	2.3%
2010	29,274,194	1.5%	31,285,246	3.2%	30,574,656	2.3%
2011	29,713,307	1.5%	32,286,373	3.2%	31,266,394	2.3%
2012	30,159,007	1.5%	33,319,537	3.2%	31,975,068	2.3%
2013	30,611,392	1.5%	34,385,763	3.2%	32,701,128	2.3%
2014	31,070,563	1.5%	35,486,107	3.2%	33,445,042	2.3%
2015	31,536,621	1.5%	36,621,662	3.2%	34,207,292	2.3%
2016	32,009,670	1.5%	37,793,556	3.2%	34,988,368	2.3%
2017	32,489,815	1.5%	39,002,949	3.2%	35,788,780	2.3%
2018	32,977,163	1.5%	40,251,044	3.2%	36,609,060	2.3%
2019	33,471,820	1.5%	41,539,077	3.2%	37,449,736	2.3%
2020	33,973,897	1.5%	42,868,328	3.2%	38,311,364	2.3%
2021	34,483,506	1.5%	44,240,114	3.2%	39,194,524	2.3%
2022	35,000,758	1.5%	45,655,798	3.2%	40,099,800	2.3%
2023	35,525,770	1.5%	47,116,783	3.2%	41,027,796	2.3%
2024	36,058,656	1.5%	48,624,520	3.2%	41,979,144	2.3%
2025	36,599,536	1.5%	50,180,505	3.2%	42,954,480	2.3%
Average Annual Growth						
2007-2025		**1.5%**		**3.2%**		**2.3%**

Notes:

\1 Massport Financial and Massport Planning forecasts are for calendar years ending December 31.

\2 FAA Preliminary TAF forecast is for Federal fiscal years ending September 30.

Sources: Massport and FAA, Terminal Area Forecasts, March 2007.

7.2 MASSPORT PLANNING FORECASTS

Massport uses long-term forecasts of Logan Airport activity to plan for facilities, operations, and environmental activities. Since airport activity has fluctuated over the past seven years – with economic cycles, the events of 9/11, the growth of low cost carrier service, and network carrier restructuring, Massport has updated its long-term forecasts several times during this period to take into account significant changes.

In 1990, Logan's 20-year forecast included two scenarios with the Airport achieving 37.5 million passengers in the Low case and 45 million in the High case by 2020. Since that time, Massport has revised its long term planning forecast to reflect changes in the Airport's planning and environmental initiatives. The latest updates

were calculated for this report and develop a forecast from the Airport's reported 2006 data. The 2006 data is reflective of the Airport's recovery and continued long-term growth, with the planning forecast projecting that the Airport will reach 50 million passengers in 2025.

7.2.1 Planning Forecast Assumptions

Aviation demand, in general, is a function of the local economy, the national and world economies, and the condition of the aviation industry. Massport's Planning forecast is based on the assumption of increasing air travel demand for the Boston Service Area and surrounding region. Specific assumptions are summarized below:

- The economies of Massachusetts and New England will continue to experience long-term, positive population, real income and employment growth.
- The national and local economies will encounter and recover from periodic economic challenges and sustain moderate growth over the long-term.
- The Airport will continue to function primarily as an origin-destination airport as the percentage of O&D passengers has remained relatively constant. Potential airline consolidation will not substantially change the frequencies and air service patterns at the Airport as combined or new carriers would be expected to meet growing demand.
- International airline traffic at the Airport and for the industry as a whole will continue to grow faster than domestic traffic**.**
- The Airport will continue to operate on an unconstrained basis over the planning horizon, whereby on an hourly basis the runways and taxiways will be able to accommodate all of the projected hourly operations.

7.3 MASSPORT FINANCIAL FORECAST

Massport's Financial forecast is based on actual passenger traffic for CY 2006. The Financial forecast is revised on an annual basis and assumes future growth on an average of 1.5 percent annually. With the long-term growth assumption of 1.5 percent per year, the Airport would reach a level of only 36.6 million passengers by CY 2025.

7.4 FAA AVIATION FORECASTS

The FAA has developed extensive aviation forecasting models that are used to projects passenger and operations growth for the U.S. airline industry and for individual airports. The FAA develops its national forecast annually. In March 2007, the FAA released its latest industry forecast – FAA Aerospace Forecasts, Fiscal Years 2007 – 2020 (the U.S. Federal Government fiscal year begins October 1).

7.4.1 FAA U.S. Industry Projections

In the current environment of high oil prices and low cost carrier competition, network carriers continue to adjust their business model by reallocating flying to regional affiliates, reducing capacity, and shifting aircraft to international markets.

Over the short term, from Federal FY 2006 to Federal FY 2010, the FAA predicts that total U.S. scheduled carrier enplanements (domestic and international) will increase at an average annual rate of 3.5 percent. Over the longer term, from Federal FY 2010 to Federal FY 2020, the FAA predicts that total U.S. scheduled carrier enplanements will increase at a slightly higher average annual rate of 3.6 percent.

The FAA industry forecast predicts that over the forecast period, international passenger traffic will grow at 4.8 percent, 1.4 percent faster than the domestic market, which is forecast to increase by 3.4 percent per year. Within the international environment, the Asian/Pacific market is projected to grow the fastest at 6.7 percent, followed by the Latin American market at 4.7 percent and the Atlantic market at 3.7 percent. The FAA projects that regional airline passengers will increase, at a slower rate than domestic mainline carrier passengers. This is predominantly due to a decrease in the 'feeder" effect provided by network carriers, as the carriers continue to remove capacity from their domestic systems, shifting focus to higher-yield international flying. While demand for 70-90 seat aircraft continues to increase, the FAA expects that the number of 50 seat regional jets in service will continue to decrease. Over the forecast horizon, regional airline passengers are expected to grow at an average annual rate of 3.1 percent, compared to 3.7 percent annual growth for mainline carriers in their domestic systems. The FAA forecast assumptions also include a modest 1.3 percent annual fuel price increase over the forecast period.

Uncertainties not addressed by the FAA forecast include: (1) a stall in the economy as it is projected that growth would remain strong with only a slight decline in the rate of growth; (2) fuel price shocks given the highly volatile fuel market of the

recent past which could cause a significant impact; and (3) potential long-term impacts of heightened security measures and passenger processing times on business travel, especially in short-haul markets. The forecast assumes that there will not be a successful terrorist attack against the U.S. or world aviation and that there will not be any further bankruptcies, liquidations, or consolidations in the airline industry.

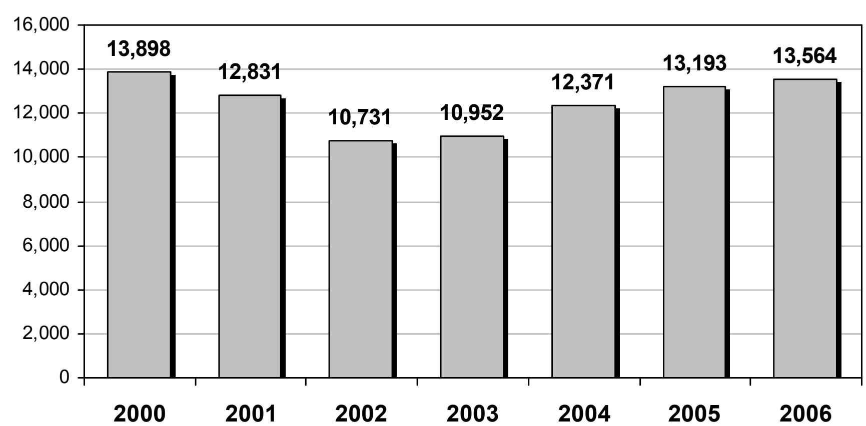
7.4.2 FAA Terminal Area Forecasts for Logan

After completing its industry level projections, the FAA translates the national forecast into airport level forecasts. The FAA's most recent TAF for fiscal years 2006-2025 was released in March 2007 and has been utilized in this report. The March 2007 TAF covers the period from 2006 to 2025. According to the report, Logan's passenger traffic recovered to the level it had reached prior to the events of 9/11 in 2006. Over the long-term forecast period (2006 to 2025), the TAF projects average annual passenger growth of 2.3 percent at Logan.

7.5 SH&E REVIEW OF MASSPORT FORECASTS

SH&E believes that the Massport Financial Forecast and the Massport Planning Forecast represent a reasonable range of future activity at the Airport. The Financial Forecast, which assumes a long-term average growth rate of 1.5 percent, is conservative compared to the Airport's actual year-over-year growth rates of 14.6 percent, 3.5 percent, and 2.4 percent for the 2004, 2005, and 2006 years, respectively (Exhibit 7-3).

Exhibit 7-3: Total Passenger Enplanements at Logan Airport (In Thousands)



Source: FAA Terminal Area Forecast Summary

As explained earlier in this report, the airline industry contraction after 2001 was severe and caused a significant decline in enplaned passengers at most Large Hub U.S. airports. The high level of growth experienced by Logan and other airports in 2004 was partially due to recovering passenger volumes from 9/11, but also due to industry expansion of seat capacity and declining yields. However, these actions coupled with rising fuel prices were not sustainable over the long term, and created large losses for the airlines, so the 2004 expansion was followed by another round of industry contraction. The restructuring of the U.S. airline industry, through bankruptcy and removal of capacity and fare increases, resulted in a slowing of enplanement growth in 2004 and 2005, followed by an absolute decline in passenger enplanements in 2006. Over the past three years, Logan Airport has been less affected by industry restructuring than the U.S. airport industry as a whole. This performance is largely a reflection of the strong O&D nature of the Airport and the underlying market strength of the Boston Service Area.

Also noted in this report, 2006 has been a highly unusual year. GDP increased, yet nationwide enplanements declined, a condition that is not expected to continue. Over the near term, SH&E believes that the industry has entered a period of stabilization in which continued moderate growth is anticipated. We believe that over this period, because of the strong market characteristics of the Boston Service Area, Logan will continue to outperform the national industry.

In reviewing the Massport Planning Forecast, its long-term projected growth rate is 3.2 percent per year, a level higher than the growth rate in 2006, though lower than the growth rate of 3.5 percent in 2005. As growth during the period between 2000 and 2006 exhibited significant volatility, a longer-term view based upon those years would not be appropriate. In reviewing growth from 1990 to 2000 and from 1995 to 2000, the Airport's average growth rates were 1.9 percent and 2.8 percent, respectively. SH&E views the Planning Forecast as a potential high growth scenario, which is appropriate for facility planning and environmental impact analysis.

SH&E expects that over the short-term the Airport will achieve average annual passenger growth consistent with its 2006 performance. Over the long-term horizon, SH&E expects that passenger growth at Logan will moderate and will remain below the national average, reflecting Boston's maturity as an air travel market. In SH&E's opinion, over the long-term, a reasonable forecast of future passenger activity at Logan would be bounded by Massport's Financial and Planning forecasts.

7.5.1 Forecast Risks

Any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized, and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material. While the Massport forecasts are based on historical data and future assumptions that SH&E believes are reasonable, some of the underlying assumptions that are detailed explicitly or implicitly may not materialize due to unforeseen events or circumstances. The main uncertainties to the forecasts are:

- Increasing fuel prices resulting in a significant increased expenditures for the industry and their potential impact on the global economy;
- Increased threats of terrorism and its impact on the traveling public;
- Short-term service disruptions at the Airport due to further airline restructuring activities (liquidation events or consolidation); and
- Long-term changes in air travel propensities.

APPENDIX C

JACOBS CONSULTANCY

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formerly Leigh Fisher Associates

May 17, 2007

Mr. Thomas J. Kinton, Jr.
Chief Executive Officer and Executive Director
Massachusetts Port Authority
One Harborside Drive
Suite 200S
East Boston, Massachusetts 02128

Re: Review of Airport Net Revenues Forecasts,
Massachusetts Port Authority Revenue Bonds, Series 2007A and Revenue Refunding Bonds, Series 2007C

Dear Mr. Kinton:

Jacobs Consultancy is pleased to submit this review of the Airport Properties Net Revenues forecast in connection with the proposed issuance of Revenue Bonds, Series 2007A and Revenue Refunding Bonds, Series 2007C (collectively, the Series 2007 Bonds), by the Massachusetts Port Authority (the Authority). Jacobs Consultancy is a full-service airport consulting firm that has been providing comprehensive airport business and facilities planning services for over 60 years.

The Authority is a multipurpose agency that owns and operates, among other facilities, Boston-Logan International Airport (the Airport) and Hanscom Field, a general aviation reliever airport (collectively, the Airport Properties). In FY 2006,* the Airport Properties represented 79.1% of total Authority Revenues.

The Authority intends to issue the Series 2007 Bonds to finance a portion of the costs of certain improvements to its Airport Properties and to refund certain of the Authority's outstanding bonds, and has prepared certain financial forecasts in connection with the financing of such improvements. The Authority is also contemplating the issuance of additional bonds in the future to finance a portion of the costs of certain capital improvements included in its FY 2007-FY 2011 Capital Program. For a further explanation of the FY 2007-FY 2011 Capital Program, see the section of the Official Statement to which this letter is appended, titled "Capital Program."

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*The Authority's Fiscal Year (FY) ends June 30.

Note: Capitalized terms not otherwise defined shall have the meaning ascribed to such items in the Official Statement to which this letter is attached as Appendix C.

SCOPE OF STUDY

In conducting our study, we reviewed:

- The estimated costs and funding for Airport Properties capital improvements included in the FY 2007-FY 2011 Capital Program, as prepared by the Authority
- The forecast sources and uses of funds for future issuances of bonds to implement the FY 2007-FY 2011 Capital Program and associated forecast annual debt service requirements, as prepared by the Authority
- The Authority's approved passenger facility charge (PFC) applications
- The Authority's approved Letter of Intent (LOI) from the Federal Aviation Administration (FAA)
- The Authority's analysis of forecast deposits to the Payment in Lieu of Taxes, Self Insurance, Maintenance Reserve, Capital Budget, and Improvement and Extension funds or accounts
- The Authority's policies and rate-making procedures relating to the calculation of airline terminal rents and landing fees
- Significant contractual agreements relating to the use and occupancy of Airport Properties, including the operation of concession privileges by BAA, the Delta Air Lines lease for Terminal A, the US Airways and American Airlines leases for portions of Terminal B, the United Airlines and JetBlue Airways leases for portions of Terminal C, the BOSFUEL lease, and other significant leases
- The Authority's procedure for allocating general and administrative expenses and Payment in Lieu of Taxes costs
- Historical relationships between revenues, expenses, and passenger enplanements at the Airport
- The Authority's actual operating expenditures for FY 2006, estimated operating expenditures for FY 2007 based on 6 months of actual data, and the Authority's forecast of operating expenses through FY 2011
- The Authority's actual operating revenues for FY 2006, estimated revenues for FY 2007 based on 6 months of actual data, and the Authority's forecast of operating revenues through FY 2011

- The Authority's Consolidated Annual Financial Report for FY 2006

- The study, dated May 17, 2007, prepared by Simat, Helliesen & Eichner, Inc. (SH&E) of the underlying market for airline traffic demand at the Airport, including trends in the population and economy of the geographic region served, historical trends in airline traffic, key factors affecting future airline traffic, and the Authority's forecasts of airline traffic underlying its financial forecasts

- The Roadway Transfer Agreement between the Commonwealth of Massachusetts, the Massachusetts Turnpike Authority, and the Authority dated March 23, 1999, as amended

- The Memorandum of Understanding (MOU) between the City of Worcester, the Worcester Airport Commission, and the Authority, dated April 15, 1999, regarding the Authority's involvement with Worcester Regional Airport; the January 2000 Operating Agreement (as amended in 2004) between the City of Worcester, the Worcester Airport Commission, and the Authority (Worcester OA) regarding the transfer of operating responsibilities of Worcester Regional Airport to the Authority

We have relied upon the information listed above and other information provided to us without validating the accuracy, completeness, or reliability of such information. While we have no reason to believe that the information does not provide a reasonable basis for the financial forecasts set forth in this review, we offer no assurances as to the accuracy or reliability of such information.

We have relied upon the estimates of project costs and construction schedules prepared by others. We did not conduct an independent review of the cost estimates or the construction schedules, and offer no opinion on the reasonableness of such costs or the achievability of such schedules.

We reviewed the key factors upon which the Airport Properties Net Revenues may depend, and assisted the Authority in formulating certain assumptions about those factors. Specifically, we assisted the Authority in formulating assumptions regarding passenger enplanements, airline revenues, and incremental operating expenses for new Airport facilities, and we reviewed the Authority's forecasts of parking, rental car, and terminal concession revenues.

We also assisted the Authority in formulating a preliminary plan of finance for implementing the FY 2007-FY 2011 Capital Program.

In conducting our study, we did not review:

- Executed or draft agreements between the Authority and others with respect to local community interest groups.

- Airport Properties staffing requirements or other detailed operational considerations used to develop the operating expense forecasts.

KEY FACTORS AFFECTING RESULTS

Forecasts of Airport Properties Net Revenues are set forth in the accompanying Exhibit A. Achievement of the financial forecasts will depend particularly on achievement of the assumptions regarding the following key factors:

Passenger Traffic

As the Airport predominantly serves origin and destination activity (and has limited airline hubbing operations), future growth in passenger traffic at the Airport will occur largely as a function of the growth in the population and economy of the Boston area. Additionally, several other factors will play a role in the growth in passenger traffic at the Airport, including (1) the type and extent of airline service provided at the Airport, including the ability of financially troubled airlines to continue operating at the Airport, (2) the type and extent of airline service provided at other regional airports, particularly Manchester-Boston Regional Airport and T. F. Green Airport, (3) national and international economic and political conditions, (4) the availability and price of aviation fuel, (5) airline economics, competition, and airfares, (6) the capacity of the national air traffic control system, and (7) airport capacity provided at Boston-region airports, including the Airport.

The Authority's financial forecast is based on the assumption that total passengers (enplaned plus deplaned) at the Airport will increase 1.5% in FY 2007 and 1.5% per year thereafter through FY 2011 (the end of the forecast period). According to Authority management, the capacity of the existing facilities at the Airport is sufficient to accommodate this increase in passengers through the forecast period.

The events of September 11, 2001, and the economic slowdown had a significant negative effect on passenger traffic at the Airport. Traffic levels are recovering, and since FY 2002, passenger traffic has increased at an annual compound growth rate of 5.5%. FY 2006 passengers at 27,446,605 are only slightly below the previous high of 27,543,018 set in FY 2000. It is expected that, given the Airport's role as a predominantly origin and destination facility, and with the long term economic growth prospects for Boston and New England, passenger numbers at the Airport will return to pre-September 11, 2001 levels in FY 2007.

Other general factors that will affect the amount of passenger traffic at airports throughout the world, including the Airport, include the following.

National and international economic and political conditions. Historically, airline passenger traffic nationwide has correlated closely with the state of the U.S. economy and levels of real disposable income. Recession in the U.S. economy in 2001 and stagnant economic conditions in 2002 contributed to reduced passenger traffic during those years. Future increases in passenger traffic will depend largely on the ability of the nation to sustain growth in economic output and income.

With the globalization of business and the increased importance of international trade, growth in the U.S. economy has become more closely tied to worldwide economic, political, and social conditions. As a result, international economics, currency exchange rates, trade balances, political relationships, public health concerns, and hostilities are now important influences on passenger traffic at major U.S. airports. Sustained future increases in both domestic and international passenger traffic will depend on stable international relationships and global economic growth.

Aviation Security Concerns. Concerns about the safety of airline travel and the effectiveness of security precautions influence passenger travel behavior and airline travel demand. Anxieties about the safety of flying and the inconveniences and delays associated with security screening procedures lead to both the avoidance of air travel and mode choice changes from air to surface modes for short-haul trips.

Safety concerns in the aftermath of the terrorist attacks in September 2001 were largely responsible for the steep decline in airline travel nationwide in the last quarter of 2001 and all of 2002. In early 2003, safety concerns were again heightened by the beginning of hostilities in Iraq and the threat of retaliatory terrorist attacks. Since September 2001, government agencies, airlines, and airport operators have upgraded security measures to guard against attacks and maintain confidence in the safety of airline travel. These measures include strengthened aircraft cockpit doors, changed flight crew procedures, increased presence of armed sky marshals, federalization of airport security functions under the Transportation Security Administration (TSA), and more intensive screening of passengers and baggage.

Historically, airline travel demand has recovered after temporary decreases stemming from terrorist attacks, hijackings, aircraft crashes, and international hostilities. Provided that intensified security precautions serve to maintain confidence in the safety of commercial aviation, without imposing unacceptable inconveniences for airline travelers, it can be expected that future demand for airline travel at the Airport will depend primarily on economic, not security, factors.

The financial health of the airline industry. Increases in passenger traffic at the Airport will depend partly on the profitability of the U.S. airline industry and the associated ability of the industry and individual airlines to make the necessary investments to increase service. Between 1995 and 2000, the airline industry as a whole was profitable, but as a result of the 2001 economic recession, the disruption of the airline industry that followed the September 2001 terrorist attacks, high operating costs, and intense price competition, the industry has again experienced unprecedented financial losses. Between 2001 and 2005, the major U.S. airlines collectively recorded net losses of approximately $42 billion.

To mitigate these losses, all the major network airlines have restructured their route networks and flight schedules and negotiated with their employees, lessors, vendors, and creditors to cut costs, either under Chapter 11 bankruptcy protection or the threat of such. A number of the major air carriers that currently serve the Airport have filed for Chapter 11 bankruptcy protection since 2001 including Delta Air Lines, Northwest Airlines, United Airlines and US Airways. In addition, American Airlines avoided filing for bankruptcy protection only after obtaining labor cost concessions from its employees and drastically reducing service at its St. Louis hub.

United Airlines filed for Chapter 11 protection in December 2002 and emerged from bankruptcy in February 2006. For the 11-month period following its emergence from bankruptcy protection, United Airlines reported a positive net income and produced an operating profit in the three consecutive quarters. For the first quarter of 2007, United reported a net loss, although it was a significant improvement over the results for the same quarter of 2006.

In August 2002, US Airways entered Chapter 11 bankruptcy protection largely as a result of the adverse financial impacts resulting from the events of September 11, 2001 and the Iraqi war. With the help of a $900 million loan guarantee from the Air Transportation Stabilization Board and other additional exit financing, US Airways completed what it referred to as a "fast-track" emergence from Chapter 11 protection in March 2003. US Airways filed for Chapter 11 bankruptcy protection for a second time in September 2004 and emerged from this bankruptcy protection in September 2005. Prior to its emergence from bankruptcy protection, US Airways signed a merger agreement with America West in May 2005 which became effective upon US Airways' emergence from bankruptcy in September 2005. The airlines are still in the process of integrating operations under the US Airways brand, but in 2006, the first full operating year following the merger, the US Airway Group (US Airways and America West) reported a positive net income. US Airways also reported a net profit for the first quarter of 2007.

In September of 2005, Delta Air Lines and its subsidiaries (Delta) filed for Chapter 11 bankruptcy protection. According to Delta, it has made considerable progress in its reorganization efforts and has reduced annual operating expenses by approximately

$3.0 billion, one year ahead of schedule. Delta just recently exited bankruptcy protection on April 30, 2007.

Northwest Airlines (Northwest) also filed for bankruptcy protection in September 2005 and it has also made considerable progress in its restructuring efforts. According to Northwest, it has reduced annual operating costs by $2.4 billion, restructured its fleet to better fit its operating model and entered into new aircraft purchasing agreements. Northwest has also restructured agreements with its three Northwest Airlink partners to continue providing regional service within the Northwest network. Northwest expects to exit bankruptcy protection later in 2007.

During the last six months of 2006, carriers operating in Chapter 11 bankruptcy (Delta and Northwest) had a 17.1% share of the passenger market at the Airport. Because the Airport is predominantly an origin and destination airport (i.e., no airline operates a hubbing operation at the Airport) it is expected that if a carrier were to liquidate, there would be no long-term reduction in the number of passengers using the Airport, because other airlines would increase service to accommodate passengers who would otherwise have traveled on the liquidated carrier. In the event of such a liquidation however, there could be a material reduction in passenger numbers in the short-term.

Continuing losses could force airlines to retrench, seek bankruptcy protection, discontinue marginal operations, or liquidate. The restructuring or liquidation of one or more of the large network airlines could drastically affect service at many connecting hub airports, present business opportunities for the remaining airlines, and change travel patterns throughout the U.S. aviation system.

The growth of low cost carrier service. While the traditional "legacy" airlines have suffered financially in recent years, a group of airlines known as low cost carriers (LCCs) have aggressively expanded their operations throughout the nation. LCCs are carriers that utilize certain advantages to effect a cost structure that is significantly lower than the cost structure of the legacy carriers. These advantages can include lower labor costs, greater labor flexibility, a streamlined aircraft fleet, and a generally more efficient operation. These low costs suggest that the LCCs can offer a low fare structure to the traveling public while still maintaining profitability.

Between 1990 and 2007, the share of industry-wide domestic passengers traveling on LCCs increased from 8.4% to 25.6%. While prior to September 11, 2001, LCC operations were predominantly in the short-haul markets, LCCs are now rapidly expanding their operations into all market segments, including long-haul segments that were previously the preserve of legacy carriers.

In common with many airports nationwide, LCCs have significantly increased their service at the Airport. According to the Authority as of December 2006, four LCCs were operating at the Airport—AirTran Airways, JetBlue, Spirit and US Airways—providing

122 daily departures, a 169% increase from the equivalent number of departures in March 2005. During FY 2006, LCCs carried approximately 35.2% of total passengers enplaning and deplaning at the Airport.

In January 2005, JetBlue announced plans to significantly increase its operations at the Airport. The airline announced that it would occupy five gates at Terminal C upon the relocation of Delta Air Lines to the newly opened Terminal A, and commencing on May 1, 2006, would add an additional gate every six months until it occupies 11 gates in total (i.e., by approximately November 2008). JetBlue currently leases eight gates in Terminal C and in FY 2006 it became the fourth largest carrier at the Airport, representing a passenger market share of 9.5%.

Airfield Capacity and FAA Letter of Intent

On an annual basis, the Authority receives Airport Improvement Program (AIP) grants from the FAA. Over the period FY 2002 through FY 2006, the Authority received a total of approximately $229.6 million in AIP grants. Included in this total amount is an LOI grant awarded by the FAA, in April 2004, for $90.8 million in AIP entitlement and discretionary grant funding during the period federal fiscal year 2005 to federal fiscal year 2012. This LOI was awarded to partially fund the construction of a new, unidirectional runway (Runway 14-32) and associated airfield projects to reduce delays at the Airport. The Authority received $15.0 million of this grant in FY 2005 and $13.6 million in FY 2006. The remainder of the $90.8 million grant is expected to be received on an annual basis through FY 2012. The Authority received a total of approximately $57.1 million in AIP grants in FY 2005, $17.9 million in FY 2006 and expects to receive $13.7 million in FY 2007.

Airline Rents and Fees

The Authority expects to continue to calculate airline rents and fees generally on the basis of existing rate-making procedures. Terminal rentals in the newly redeveloped and reopened Terminal A are calculated using a methodology similar to that used for the other terminals, with the Authority's allocated operating expenses and capital costs being recovered through the terminal rental rate. The Authority's lease agreement, with all air carriers for terminal space at the Airport, states that the Authority may revise rental rates periodically, at the Authority's discretion, to recover the actual direct and indirect capital and operating costs for such leased space. Landing fee and terminal rental revenues include the recovery of an allocated share of the Authority's acquisition costs of roadway assets associated with construction of the Ted Williams Tunnel (referred to as the "CA/T project"), as described below.

Purchase of Roadways

Under the Roadway Transfer Agreement, the Authority has agreed to pay $365 million in installments for the acquisition of roadway assets of commensurate value being constructed by the Massachusetts Highway Department in connection with the CA/T project. These roadway assets serve Airport users. This amount is provided for in the Authority's Capital Program. Of the total amount, $315 million was paid through the date of this report, with the balance being paid during the forecast period. The full effect on airline rates and charges and debt service coverage is not expected to be realized until FY 2008. In the event that the timing of the Authority's contribution is accelerated, it may be necessary to revise the accompanying forecasts of Airport Properties revenues and expenses accordingly. Construction activities on the CA/T project at the Airport are expected to continue at least through calendar year 2007.

Parking Rate Increase

Automobile parking fees are a major source of operating revenue and in FY 2006 represented approximately 18.1% of total Authority revenues. In February 2007, the Authority completed the Central Parking Garage expansion project that in total provided approximately 2,800 additional commercial parking spaces. In addition to the increase in available parking spaces, the Authority intends to increase parking rates approximately 10% in FY 2009, which is expected to further increase parking fee revenues.

Implementation of the FY 2007-FY 2011 Capital Program

The forecast of Airport Properties Net Revenues includes debt service on additional Bonds expected to be issued during the forecast period to implement the FY 2007-FY 2011 Capital Program. In the event that such FY 2007-FY 2011 Capital Program projects are not implemented, the associated revenues and expenses would not be realized. In addition to the projects the Authority intends to fund with internally generated funds, grants, PFC revenues, and Bonds, the FY 2007-FY 2011 Capital Program includes a number of projects that are expected to be funded by tenants or third parties. The Authority anticipates that these projects would have a minimal effect on the finances of the Authority, and revenues and expenses from these projects are not incorporated in the forecast of Airport Properties Net Revenues.

Terminal A Redevelopment

In March 2005, Delta completed the redevelopment of Terminal A at the airport. The redevelopment project was largely funded with special facility revenue bonds issued in August 2001 (Delta Bonds), which were secured solely by Delta and insured by Ambac

Assurance Corporation (Ambac). Delta commenced service at Terminal A on March 16, 2005 pursuant to a lease dated August 1, 2001 (the Original Lease) to occupy all 18 aircraft gates and seven regional aircraft ground loading positions in Terminal A. On September 14, 2005, Delta filed for bankruptcy protection under Chapter 11 of the United States Code.

To assist Delta in its reorganization efforts, the Authority, with the consent of the Trustee and Ambac, agreed to restructure the Original Lease. Delta then signed an amended 10-year lease dated July 1, 2006, reducing the number of aircraft gates it leases in Terminal A to 12 and the number of ground loading positions to four. The Authority is currently attempting to lease the remaining six aircraft gates and three ground loading positions available in Terminal A. The Authority is reasonably confident it will find tenants for the remaining Terminal A space because of the strong demand for airline access to the Airport. The Authority is not obligated to make the debt service payments on the Delta Bonds which remains the responsibility of Delta, although it does direct a portion of the Terminal A airline space rental revenue to pay debt service on the Delta Bonds. If Delta is unable to make the debt service payments on the Delta Bonds, payment of such debt service becomes the responsibility of Ambac under the terms of the existing bond insurance agreement. The anticipated financial impacts from the restructuring of the Original Lease and the expected short-term decrease in Terminal A lease revenues are incorporated in the projections of Airport Properties Net Revenues.

International Gateway (Terminal E) Renovation and Expansion

The Authority completed an addition (the South Addition) to the International Gateway (Terminal E) in 2003 that is now operational. Renovation of the remainder of Terminal E is scheduled to be completed in FY 2008.

Passenger Facility Charges

In June 1999, the Authority issued its PFC Revenue Bonds, Series 1999-A and 1999-B (collectively, the Series 1999 PFC Revenue Bonds). The Authority is currently in the process of issuing PFC Revenue Bonds, Series 2007-B and PFC Revenue Refunding Bonds, Series 2007-D (collectively the Series 2007 PFC Bonds). PFC revenues of the Authority are pledged to the payment of debt service on the Series 1999 and Series 2007 PFC Bonds. These revenues are not Revenues of the Authority, and thus, PFCs are not pledged to the payment of debt service on these Series 2007 Bonds or any of the Authority’s other currently outstanding Bonds or additional Bonds. The proceeds of the Series 2007 PFC Bonds are being used to fund the PFC-eligible portions of certain airfield projects.

In 2005, the Authority submitted three separate PFC applications to the FAA both of which were subsequently approved. The first application, submitted in July 2005, was an amendment to the Airport's existing PFC application, and requested authority to impose and use a $4.50 PFC at the Airport and to amend the PFC use amounts for the PFC-eligible portions of the International Gateway Project. In September 2005, the FAA published a Final Agency Decision (FAD) approving the PFC application amendment and authorizing the Authority to impose and use a $4.50 PFC effective October 1, 2005. The other applications, submitted in December 2005, were for the authority to impose and use a $4.50 PFC for additional PFC-approved projects, and to amend the PFC use amounts for prior PFC-approved projects. In April 2006, the FAA issued a FAD authorizing the Authority to impose and use a $4.50 PFC for a total approved collection amount of $995.0 million, with a projected PFC charge expiration date of February 1, 2016.

The current federal funding authority supporting the FAA and its programs, including the AIP grant program, is set to expire on September 30, 2007. The Bush Administration's proposed reauthorization bill, known as the Next Generation Air Transportation Financing Reform Act of 2007 includes a proposal to increase the PFC level, currently capped at $4.50, to $6.00 and under certain circumstances to as high as $7.00. FAA reauthorization bills are also being prepared in the U.S. House of Representatives and the U.S. Senate; the final legislation resulting from these bills is not yet known. If the maximum PFC level is increased under the next reauthorization bill, the Authority is under no obligation to increase their existing PFC level of $4.50 and currently has no plans to seek authorization to do so.

Worcester Regional Airport

On April 15, 1999, the Authority entered into a Memorandum of Understanding with the City of Worcester and the Worcester Airport Commission contemplating the potential takeover of Worcester Regional Airport by the Authority. Subsequently, in January 2000, the Authority entered into an Operating Agreement that transferred operating responsibility of the airport to the Authority. The agreement also incrementally transferred payment of a portion of Worcester Regional Airport's operating deficit to the Authority. Under an amendment to the Operating Agreement executed in 2004, the Authority's contribution is equivalent to 100% of the Worcester Regional Airport operating deficit in FY 2005, 85% in FY 2006, and 68% in FY 2007; the Authority currently has no responsibility to fund deficits incurred in FY 2008 and thereafter. The existing Operating Agreement expires on June 30, 2007, and the Authority and the City of Worcester are currently engaged in negotiations concerning an anticipated new agreement.

SUMMARY OF RESULTS

Exhibit A presents forecast Airport Properties revenues and expenses, the resultant forecast Airport Properties Net Revenues, for FY 2007 through FY 2011, and the key assumptions that are significant to the forecasts, as prepared by Authority management. These forecasts assume that the airlines currently providing significant levels of service at the Airport will continue to provide uninterrupted service during the forecast period. The forecasts shown in Exhibit A are consistent with the sections of the table entitled "Forecasted Operating Results and Debt Service Coverage Under the 1978 Trust Agreement" (as included in the "Selected Financial Data" section of the Official Statement), which relate to Airport Properties revenues and expenses. The information presented in Exhibit A is at a greater level of detail than that presented in the Official Statement, and separately presents information for the Airport and Hanscom Field. To the extent that line items differ between Exhibit A and the Authority's table, such variance is due to differences in the methods used to aggregate revenues and expenses. The Authority prepared these financial forecasts on the basis of information and assumptions that were assembled by the Authority. As discussed earlier, Jacobs Consultancy assisted the Authority in formulating certain assumptions and developing the forecasts of Airport Properties Net Revenues. The forecasts reflect the Authority's expected course of action during the forecast period and, in the Authority's judgment, based upon the assumptions described herein, present fairly the Authority's forecast financial results of the Airport Properties; however, there can be no assurance that such forecast results will be realized.

Debt service on the Authority's Bonds and required deposits to the Payment in Lieu of Taxes and Maintenance Reserve funds, and subordinate debt service on private placement debt issued to fund the acquisition of certain parcels of land must be paid from the Net Revenues of the Airport Properties and other facilities. Our review does not address the amount of such payments nor assess the adequacy of the Authority's forecast Net Revenues to make such payments, as they are subordinate to the payment of debt service on the Series 2007 Bonds.

ASSUMPTIONS UNDERLYING THE FINANCIAL FORECASTS

In our opinion, the assumptions underlying the Authority's financial forecasts provide a reasonable basis for the forecasts of Airport Properties Net Revenues and we believe that such forecasts appropriately reflect such assumptions. To the best of our knowledge, we believe that the Authority has taken into account all relevant factors material to the financial forecasts. We offer no opinion with regard to the forecasts of non-Airport Properties Net Revenues.

Any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material. We have no responsibility to update this letter for events and circumstances occurring after the date of our review.

* * * * *

We appreciate the opportunity to serve the Authority as the Airport Properties financial consultant on this proposed financing.

Respectfully submitted,

Jacobs Consultancy

JACOBS CONSULTANCY INC.

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KEY ASSUMPTIONS UNDERLYING FORECAST AIRPORT PROPERTIES REVENUES AND EXPENSES—EXHIBIT A

Massachusetts Port Authority

Passenger Traffic and Airline Operations

1. The total number of enplaned passengers at Boston-Logan International Airport will increase 1.6% from 13,661,701 enplaned passengers in FY 2006 to approximately 13,882,000 in FY 2007, and 1.5% per year thereafter, to approximately 14,718,00014,734,000 enplaned passengers in 2011.

2. The "legacy" air carriers currently providing significant levels of service at the Airport (including US Airways, United Airlines, Delta Air Lines, American Airlines, Northwest Airlines and Continental Airlines) will continue to operate as going concerns, and will continue to provide significant service at the Airport. There will be no sudden, significant reduction in passenger levels at the Airport because of airline liquidations or for any other reason.

PFC Program

3. The PFC Program will continue to be implemented in accordance with the Authority's approved PFC applications. PFCrevenues are not pledged to the payment of debt service on these Series 2007 Bonds or any other of the Authority's General Revenue Bonds. General Revenue Bonds issued under the Trust Agreement dated as of August 1, 1978, between the authority and U.S. Bank National Association, as trustee, are payable from and secured by a pledge of the Authority's general revenues, other than PFC revenues.

Grants

4. The Authority will receive AIP entitlement grants according to the AIP formula under current law.

5. The Authority will receive payments from the FAA in accordance with the payment schedule outlined in its Letter of Intent from the FAA, dated April 16, 2004.

7. The Authority will receive approximately $27.7 million in AIP discretionary soundproofing grants to fund the residential sound insulation costs that are incorporated in the FY 2007-FY 2011 Capital Program.

Acquisition of Roadway Assets

8. The Authority's purchase of CA/T assets will be in accordance with the Roadway Transfer Agreement, dated March 23, 1999. Total payments will be $365 million, all of which are anticipated to be paid through the end of the forecast period (FY 2011).

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Operating Expenses

9. Operating expenses are projected to increase approximately 7.4% per year over the forecast period (FY 2007 -FY 2011) and include adjustments to account for anticipated increased expenses resulting from the FY 2007-FY 2011 Capital Program.

Airline Revenues

10. Except as described in item 11 below, the landing fee and terminal building rate-making methodologies will continue to reflect current rate-making practices. If the Authority's policy regarding peak period pricing for the use of the airfield is triggered during the forecast period, it will have no impact on landing fee revenues (i.e., the policy is "revenue neutral").

11. In Terminal A, the rental rate is calculated based on a "commercial compensatory" formula—total facility costs divided by total rentable space. Total facility costs include (1) operating expenses, and (2) allocated capital costs, including those costs associated with such facilities as roadways and utilities (net of amounts funded with PFCs). Total facility costs exclude debt service on the special facility bonds used to fund the development of the facility (Delta Bonds), which is paid directly by Delta to the Delta Bonds bondholders. Delta (along with its affiliates) will occupy and pay for the airline rentable space attributable to 12 of the 18 contact gates and four of the seven ground loading positions in the facility. Because of the strong demand for airline access to the Airport, the Authority is reasonably confident it will be able to lease the remaining airline rentable space. The Authority will be responsible for, and pay the costs of, maintaining and operating the facility and recover those costs through airline rentals. The Authority is under no obligation to assume any liability for the Delta Bonds or to direct revenue, other than a portion of the Terminal A airline space rental revenue, to service debt on the Delta Bonds.

12. In the forecasts, the Transportation Security Administration is assumed to pay for office space and other miscellaneous space it occupies in the terminals, but not for space it occupies associated with security screening of passengers and baggage.

13. The Authority will include allocable debt service plus coverage on the Series 2007 Bonds, and any future Bond issues, in the airline cost basis for computing terminal rentals and landing fees.

14. Landing fee and terminal rental revenues include the recovery of an allocated share of the Authority's acquisition costs of roadway assets under the Roadway Transfer Agreement.

KEY ASSUMPTIONS UNDERLYING FORECAST AIRPORT PROPERTIES REVENUES AND EXPENSES—EXHIBIT A *(page 3 of 3)*
Massachusetts Port Authority

Concession Revenues

15. A parking rate increase (of approximately 10%) will be implemented on July 1, 2008. The completion of the Central Garage in February 2007 provides (in total) 2,800 additional commercial parking spaces which is expected to generate additional parking fee revenues.

16. The rental car privilege fee will remain at 10% of annual gross rental car revenues and minimum annual guaranteed payments will remain unchanged.

17. Other concession revenues will increase in line with the increase in passenger enplanements, and as a result of price increases.

Exhibit A

FORECAST AIRPORT PROPERTIES REVENUES AND EXPENSES
Massachusetts Port Authority
Fiscal Years 2007 - 2011
(in thousands)

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and adopted by, Authority management, as described in the accompanying text. Inevitably, some assumptions used to develop the projections will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Forecast				
	FY 2007	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**
AIRPORT PROPERTIES REVENUES					
Boston Logan International Airport					
Airline revenues					
Scheduled airline landing fees	$83,348	$85,356	$93,301	$100,251	$105,807
Other landing field rentals and fees	2,849	2,917	3,188	3,426	3,615
Terminal rentals and per passenger fees	104,902	109,382	118,542	126,497	133,814
	$191,099	$197,654	$215,032	$230,174	$243,236
Concession revenues					
Terminal area concessions	$32,517	$33,083	$33,707	$34,645	$35,337
Automobile parking fees	100,633	104,411	114,235	116,505	118,875
Rental car fees	20,190	19,875	20,471	21,085	21,507
Shuttle bus service	9,839	9,207	9,207	9,207	9,391
	$163,179	$166,577	$177,621	$181,442	$185,111
Other revenues					
Building and ground rentals	$13,442	$20,264	$20,829	$16,410	$16,738
Sale of utilities	29,184	24,536	26,836	27,020	27,560
Hangar and cargo rentals	21,101	15,989	16,468	16,962	17,301
Miscellaneous (a)	7,693	6,387	6,516	6,648	6,768
	$71,419	$67,175	$70,649	$67,040	$68,367
Subtotal - Boston Logan revenues	**$425,697**	**$431,406**	**$463,302**	**$478,656**	**$496,714**
Hanscom Field revenues	**$7,665**	**$8,431**	**$9,198**	**$10,119**	**$10,321**
Total Airport Properties revenues	**$433,362**	**$439,837**	**$472,500**	**$488,775**	**$507,035**

Exhibit A (Page 2 of 2)

FORECAST AIRPORT PROPERTIES REVENUES AND EXPENSES
Massachusetts Port Authority
Fiscal Years 2007 - 2011
(in thousands)

	Forecast				
	FY 2007	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**
AIRPORT PROPERTIES EXPENSES					
Boston Logan International Airport					
Landing Field	$53,865	$58,046	$62,194	$66,579	$71,274
Terminal Buildings	108,400	116,888	125,203	134,016	143,451
Airline Support (b)	8,190	8,814	9,438	10,101	10,810
Commercial parking	50,119	54,026	57,884	61,966	66,334
Non-aeronautical	10,863	11,685	12,510	13,388	14,329
Miscellaneous (c)	10,905	11,752	12,577	15,052	16,106
Subtotal - Boston Logan expenses	**$242,341**	**$261,211**	**$279,806**	**$301,103**	**$322,305**
Hanscom Field expenses	**$7,533**	**$8,090**	**$8,656**	**$9,262**	**$9,911**
Total Airport Properties expenses	**$249,874**	**$269,301**	**$288,462**	**$310,365**	**$332,216**
AIRPORT PROPERTIES NET REVENUES	**$183,488**	**$170,536**	**$184,038**	**$178,410**	**$174,819**

(a) Includes, ground transportation, ground services, personal services, and other items.
(b) Includes hangar and cargo buildings.
(c) Includes general aviation, regional carrier facilities, roadways and access, airport service facilities, and other items.

SUMMARY OF CERTAIN PROVISIONS OF THE 1978 TRUST AGREEMENT

The following summary does not purport to be complete and is subject to all of the terms and conditions of the 1978 Trust Agreement, to which reference is hereby made, the form of which is available for examination at the offices of the Authority and the Trustee. The summary makes use of terms defined in the 1978 Trust Agreement, certain of which are also defined below.

Pledge Effected by the 1978 Trust Agreement (Sections 701, 601, 507 and 507A)

Payment of the principal, interest and redemption premiums on the Bonds is secured by a pledge of the Revenues, in the manner and to the extent set forth in the 1978 Trust Agreement. See "SECURITY FOR THE 2007 BONDS -- General." The Enabling Act provides that the Authority is authorized in the 1978 Trust Agreement to pledge its tolls and other revenues, over and above the amounts necessary to pay current expenses and to provide reserves therefor, to the payment of the interest on and principal of its Bonds. The Enabling Act further provides that such pledge is valid and binding when made, and that the revenues so pledged shall immediately be subject to the lien of such pledge without physical delivery thereof or further act, and such lien shall be valid and binding as against all parties having claims of any kind irrespective of whether such parties have notice thereof. The Bonds issued under the 1978 Trust Agreement are not a debt or obligation of the Commonwealth or of any political subdivision thereof but are payable solely from the Revenues pledged for their payment and certain Funds and Accounts created by the 1978 Trust Agreement.

The 1978 Trust Agreement provides that the moneys in all Funds and Accounts which are held by the Authority shall (subject to the lien described below) be subject to a lien and charge in favor of the Trustee and the holders of the Bonds to the same extent as provided with respect to moneys deposited with the Trustee. All moneys deposited with the Trustee as required by the 1978 Trust Agreement shall be held by the Trustee in trust and applied as provided in the 1978 Trust Agreement and, pending such application, shall (subject to the lien described below) be subject to a lien and charge in favor of the Trustee and the holders of the outstanding Bonds on the terms and conditions set forth therein until disbursed.

Pursuant to an Escrow Deposit Agreement by and between the Authority and the then New England Merchants National Bank, a portion of the proceeds of the Authority's Revenue Refunding Bonds, Series 1978 (the "1978 Bonds") was deposited in escrow and invested in direct obligations of the United States of America to provide for the payment when due of certain prior bonds of the Authority. The escrow agent is currently U.S. Bank National Association. In the event that amounts payable on such escrow obligations are insufficient to pay when due the principal of and interest and premium, if any, on such prior bonds, the holders of such bonds and, to the extent of certain administration charges and indemnification rights, the escrow agent would have claims upon the Authority's Revenues superior to the claim of the holders of the Bonds.

The 1978 Trust Agreement provides that amounts, if any, deposited in a separate account of the Operating Fund created under the 1978 Trust Agreement which represent payments in respect of pension obligations of the Authority will, upon the occurrence of an event of default under the 1978 Trust Agreement, first be applied to present and accrued pension benefits of the Authority's employees. The 1978 Trust Agreement further provides for the payment of the Authority's obligations in respect of post-retirement health benefits to a separate trustee or into a new separate account of the Operating Fund. Amounts, if any, deposited in such separate account would, upon the

occurrence of an event of default under the 1978 Trust Agreement, first be applied to present and accrued post-retirement health benefits of the Authority's employees.

Establishment of Funds and Accounts (Sections 503, 209 and 401)

The 1978 Trust Agreement creates a Revenue Fund, an Operating Fund (which includes a separate Self-Insurance Account and may also include a separate pension account and a separate post-retirement health benefits account), an Interest and Sinking Fund (which includes three separate accounts, namely, a Bond Service Account, a Redemption Account and a Reserve Account, and may also include one or more Term Bond Investment Accounts established by resolution of the Authority for a subsequent Series of Bonds), a Port Properties Fund, a Maintenance Reserve Fund, a Payment in Lieu of Taxes Fund, a Capital Budget Fund and an Improvement and Extension Fund (which includes separate Rebate Funds pertaining to each Series of Bonds, separate principal, interest and escrow accounts relating to a subordinated debt financing of the Authority, payment and rebate account relating to the tax-exempt commercial paper program of the Authority, and such other accounts as the Authority may from time to time establish). The 1978 Trust Agreement also provides for a Construction Fund and for separate Project Accounts within such Fund.

The Authority holds and administers in trust the Revenue Fund, the Operating Fund (except the Self-Insurance Account, and any special separate pension account or post-retirement health benefits account) and the Improvement and Extension Fund. All of the other Funds and Accounts are held and administered by the Trustee.

Application of Revenues

Under the 1978 Trust Agreement all Revenues are to be deposited, daily as far as practicable, into the Revenue Fund held by the Authority.

Operating Fund (Section 506) -- As often as practicable the Authority shall transfer from the Revenue Fund to the Operating Fund all Revenues on deposit therein. The Authority will pay when due all Operating Expenses from the Operating Fund.

On the seventh business day of each month the Authority is required to make transfers from the moneys on deposit in the Operating Fund as of the seventh business day of such month as follows:

> (i) to the trustee of the Authority's pension plan, one-twelfth (1/12) of the Authority's actuarially determined annual pension expense;
>
> (ii) if the Authority has elected to do so, to a separate trustee or to a special separate post-retirement health benefit account, one-twelfth (1/12) of the Authority's actuarially determined annual post-retirement health expense; and
>
> (iii) to the Trustee for deposit in the Self-Insurance Account, amounts substantially as recommended by the Authority's Risk Management Consultant.

After (i) paying Operating Expenses, (ii) making any required transfers to the trustee of the Authority's pension fund, to the trustee for the Authority's post-retirement health benefit account and to the Trustee for deposit in the Self-Insurance Account, and (iii) retaining in the Operating Fund such amount as the Authority may deem necessary (provided that the balance retained therein does not exceed 15% of annual Operating Expenses established in the Annual Budget of the Authority), the Authority is required on the seventh business day of each month to transfer the balance in the Operating Fund to the Trustee for deposit in the following Funds and Accounts in the following order (no transfer to be made into any Fund or Account until there shall have been deposited in the next preceding Fund or Account the full amount required):

(1) Interest and Sinking Fund (Sections 510 and 522) -- Amounts in this Fund will be applied to the payment of the Bonds and any additional Bonds which may be issued in the future. Such Bonds which may be issued in the future are hereinafter referred to as "Additional Bonds".

(i) *Bond Service Account*: There shall be deposited in this Account the amount needed to make the sum therein, together with any amounts transferred from the Construction Fund equal to (a) interest accrued and to accrue until the first day of the next month on all outstanding 1997 Bonds, 1998 Bonds, 1999 Bonds, 2003 Bonds, 2005 Bonds and 2007 Bonds and any Additional Bonds, plus (b) principal accrued and to accrue until the first day of the next month on all serial 1997 Bonds, serial 1998 Bonds, serial 1999 Bonds, serial 2003 Bonds, serial 2005 Bonds and serial 2007 Bonds and any serial Additional Bonds which will become payable within the next year.

(ii) *Redemption Account*: There shall be deposited in this Account the amount needed to make the amount deposited therein equal to the Amortization Requirements, if any, for such fiscal year on all outstanding term 1997 Bonds, term 1998 Bonds, term 1999 Bonds, term 2003 Bonds, term 2005 Bonds and term 2007 Bonds and any term Additional Bonds accrued and to accrue until the first day of the next month, plus an amount equal to any premium which would be payable on any date commencing with July 2 in such fiscal year and ending with July 1 in the following fiscal year, both inclusive, accrued or to accrue until the first day of the next month. If the balance remaining after making the deposit to the Bond Service Account shall not be sufficient to make the deposits into the Redemption Account and the Term Bond Investment Account, described below, the amount to be deposited in each Account shall be pro-rated in accordance with the respective amounts required.

(iii) *Term Bond Investment Account*: The 1978 Trust Agreement allows the Authority to provide for the payment of the principal of Additional Bonds issued as term Bonds through establishment of a Term Bond Investment Account. If a Term Bond Investment Account is established, monthly amounts would be deposited therein and invested in Government Obligations in accordance with the resolution authorizing such term Additional Bonds. No Term Bond Investment Account was established for any Series of outstanding Bonds, and none will be established for the 2007 Bonds.

(iv) *Reserve Account*: Upon issuance of any Bonds there shall be deposited in the Reserve Account an amount at least equal to one-half of the difference between (a) the issuance in the maximum annual Principal and Interest Requirements on such Bonds and all then-outstanding Bonds, and (b) the amount, if any, in the Reserve Account in excess of the maximum annual Principal and Interest Requirements on all then-outstanding Bonds. In addition, there shall be deposited in this Account each month a sum equal to one-sixtieth of the difference between (a) the maximum annual Principal and Interest Requirements for any fiscal year thereafter on account of all Bonds then outstanding, less (b) the sum of (x) the amount so deposited into the Reserve Account upon the issuance of such Bonds, and (y) any amount in the Reserve Account in excess of the maximum annual Principal and Interest Requirements on all then-outstanding Bonds prior to the issuance of such Bonds. If the amounts held on deposit in the Reserve Account exceed the maximum Principal and Interest Requirements for any fiscal year on account of all Bonds then outstanding, the excess shall be transferred to the Improvement and Extension Fund.

In lieu of making deposits to the Reserve Account as and at the times required by the 1978 Trust Agreement, the Authority, at its option, may satisfy all or any portion of such deposit requirement by providing to the Trustee (a) an irrevocable, unconditional letter of credit issued by a bank, savings and loan association or other provider of such letters of credit whose long-term obligations are rated in one of the two highest rating categories by Moody's Investors Service and Standard & Poor's, or (b) an insurance policy providing substantially equivalent liquidity as an irrevocable, unconditional letter of credit and issued by a municipal bond or other insurance company that is of sufficient credit quality to entitle debt backed by its insurance policy or surety bond to be rated in one of the two highest rating categories by Moody's Investors Service and Standard & Poor's.

(2) Maintenance Reserve Fund (Section 510) -- There shall be deposited each month in this Fund an amount equal to one-twelfth of 1% of the Replacement Cost of all Projects of the Authority as determined by the Consulting Engineer for the then current fiscal year, or such greater amount as may have been specified in the Annual Budget for such fiscal year; provided that the amount on deposit in the Maintenance Reserve Fund and not theretofore obligated shall not exceed 5% of the Replacement Cost of all Projects of the Authority. Such Replacement Cost as determined by the Consulting Engineers for fiscal year 2006 was $__________. The fiscal year 2007 annual budget includes $__________ to be deposited into this Fund.

(3) Payment in Lieu of Taxes Fund (Section 510) -- There shall be deposited in this Fund the amount required to make the balance in this Fund equal to the cumulative amount which should then be on deposit therein assuming the amounts payable in lieu of taxes on the next following payment dates were paid in equal monthly installments from the preceding payment dates under any agreements entered into pursuant to authorizing legislation.

(4) Capital Budget Fund (Section 510) -- There shall be deposited in this Fund amounts necessary to provide for the Capital Budget in each fiscal year as determined by the Authority, subject to increase or reduction by resolution of the Authority. Amounts may be withdrawn from the Capital Budget Fund for expenditure in accordance with the Capital Budget or as otherwise determined by the Authority.

(5) Improvement and Extension Fund (Section 510) -- Any balance of moneys in the Operating Fund after making required transfers to the Trustee for the above Funds and Accounts will be transferred to the Improvement and Extension Fund.

Application of Funds and Accounts

Operating Fund (Section 506) -- Operating Expenses, as determined in the Authority's Annual Budget, are paid from this Fund. Amounts deposited in the Self-Insurance Account in the Operating Fund are to be used to pay uninsured or self-insured losses.

Interest and Sinking Fund (Sections 511, 512, 513A, 514 and 519) -- Moneys in the Bond Service Account shall be applied to the payment of interest on the Bonds and any Additional Bonds and the principal amount of any serial Bonds and any serial Additional Bonds as the same become due.

Moneys in the Redemption Account shall be applied to the purchase (at not more than the current redemption price unless another price is set by the Authority) or redemption of the Bonds and any Additional Bonds. Unless previously applied to purchase Bonds and any Additional Bonds, the Trustee shall apply moneys in such Account to meeting Amortization Requirements of the Bonds or any Additional Bonds on each July 1 when due. Moneys deposited in the Redemption Account shall be applied, first, to the purchase or redemption of term Bonds and any term Additional Bonds of each Series outstanding to the extent of their respective Amortization Requirements for the then current fiscal year plus the applicable premium, if any, and thereafter, at the option of the Authority, to the purchase or redemption of Bonds and any Additional Bonds.

Moneys in the Term Bond Investment Account, if such an account shall be created, shall be applied in the retirement of any applicable Series of term Additional Bonds required to be redeemed by either redemption or, at the direction of the Authority, by purchase at a price not exceeding the next applicable redemption price, or to the purchase of Government Obligations.

Moneys in the Reserve Account shall be used by the Trustee to pay interest, principal of any serial Bonds, and Amortization Requirements with respect to term Bonds, or to make deposits to a Term Bond Investment Account, whenever and to the extent that the Bond Service Account and the Redemption Account or the Term Bond Investment Account are insufficient for such purposes.

If at any time after so applying the Reserve Account, moneys held in the Bond Service Account or the Redemption Account of the Interest and Sinking Fund shall be insufficient for the payment of the principal or premium of, or interest or Amortization Requirements on the Bonds and any Additional Bonds as the same become due, such insufficiency shall be made up by transfers from the Improvement and Extension Fund, the Capital Budget Fund, the Payment in Lieu of Taxes Fund and the Maintenance Reserve Fund, in that order.

Maintenance Reserve Fund (Section 516) -- Moneys in this Fund are to be applied to pay for (i) renewals, reconstruction and replacement of any facilities of the Authority, (ii) acquiring and installing or replacing equipment, (iii) unusual or extraordinary maintenance or repairs, (iv) repairs or replacements for which the proceeds of insurance are inadequate, and (v) transfers to the Bond Service Account and Redemption Account when these Accounts are insufficient to pay the principal or premium, or interest or Amortization Requirements on the Bonds and any Additional Bonds, or for making required deposits to any Term Bond Investment Account, as they become due.

Payment in Lieu of Taxes Fund (Section 517) -- Moneys in this Fund will be used to make payments in lieu of taxes pursuant to agreements entered into by the Authority pursuant to statute.

Capital Budget Fund (Section 517A) -- Moneys in this Fund are to be disbursed in accordance with any Capital Budget adopted by the Authority. Amounts in this Fund may be withdrawn to the extent not previously obligated. The Authority may transfer amounts from the Improvement and Extension Fund to this Fund as it sees fit.

Improvement and Extension Fund (Section 518) -- Moneys in this Fund may be used by the Authority for any lawful purpose, including, without limitation, transfer to any other Fund or Account. The resolutions of the Authority pertaining to each outstanding Series of Bonds created within the Improvement and Extension Fund as segregated accounts separate Rebate Funds for each series of such Bonds, each to be held for the sole benefit of the United States of America. Excess Earnings (as defined in such resolutions) will be deposited in Rebate Funds and used exclusively to make rebate payments to the United States of America. To the extent of any deficiency in any Rebate Fund, such payments will be made out of the Operating Fund and other available moneys of the Authority.

If then permitted by law, moneys held for the credit of the Improvement and Extension Fund may be pledged to the payment of principal and interest on notes or other obligations issued for any purpose for which moneys in such Fund may be disbursed. The Improvement and Extension Fund or portions thereof have been and may be pledged to secure certain obligations of the Authority. See “OTHER OBLIGATIONS—Subordinated Revenue Bonds” and “– Commercial Paper".

Covenants as to Fees and Charges (Sections 501 and 502)

In the 1978 Trust Agreement the Authority covenants:

(i) To charge such tolls, rates, fees, rentals and other charges as from time to time may be necessary so that the Revenues in each fiscal year will at least equal in such fiscal year the greater of (a) an amount sufficient to provide funds for Operating Expenses for such fiscal year plus an amount equal to 125% of Principal and Interest Requirements on all outstanding Bonds during such fiscal year (excluding capitalized interest payable from the Construction Fund), or (b) an amount sufficient to provide funds for Operating Expenses for such fiscal year, to make required deposits to the Interest and Sinking Fund, to make any payments to the Commonwealth required by the Enabling Act on account of the Port Properties, to make required deposits to the Maintenance Reserve Fund, the Payment in Lieu of Taxes Fund and the Capital Budget Fund, and to provide amounts required to be deposited to the Improvement and Extension Fund pursuant to any supplement to the 1978 Trust Agreement which may be entered into by the Trustee and the Authority providing for the issuance of separately secured obligations.

If in any year the Revenues shall be less than the amounts required by the preceding paragraphs, the Authority will cause recognized experts, other than the Consulting Engineers, in the field of estimating revenues of a facility or element of a facility to which the recommendations relate, to recommend revised schedules of tolls, rates, fees, rentals and other charges; and if the Authority shall comply with all such recommendations, the failure of Revenues to equal the amounts specified in the preceding paragraph will not of itself constitute an event of default under the 1978 Trust Agreement.

(ii) Before placing in operation any Additional Facilities financed by a Series of Bonds, to place in effect with respect thereto tolls, rates, fees, rentals and other charges in substantial conformity with those anticipated by the recognized experts in estimating the Revenues of such Additional Facilities in connection with the issuance of such Series of Bonds.

(iii) Before placing in operation any Additional Improvements financed by a Series of Bonds for the use of which a charge would ordinarily be made, to place in effect with respect thereto tolls, rates, fees, rentals and other charges in substantial conformity with those anticipated by the recognized experts in estimating the Revenues of the Project to which such Additional Improvements relate in connection with the issuance of such Series of Bonds.

(iv) To place in effect on the date or dates specified any increase in rates and charges that have been adopted by the Authority and taken into account by the recognized experts who estimated Revenues in connection with the issuance of an additional Series of Bonds, provided that such increase need not be imposed in the event that the Secretary-Treasurer certifies in writing, confirmed by certificates of such recognized experts, that such additional Series of Bonds could then be issued under the provision of the 1978 Trust Agreement that permitted the issuance of such additional Series of Bonds.

(v) Subject to the provisions of the Enabling Act, to set tolls for traffic over the Bridge in reasonable classifications to cover all traffic so that the tolls may be uniform in application to all traffic falling within any reasonable class regardless of the status or character of any person, firm or corporation participating in the traffic and that no reduced rate of toll will be allowed within any such class, except that subject to satisfaction of the requirements referred to in clauses (i) through (iv) above, provision may be made for the use of commutation or other tickets or privileges based upon frequency or volume.

Issuance of Additional Bonds (Sections 209 and 210)

The 1978 Trust Agreement permits the issuance of Additional Bonds for the purpose of financing costs incident to any Additional Improvements or Additional Facilities and of refunding outstanding Bonds and subordinated obligations of the Authority. Such Additional Bonds may be issued only if, at the time of such issuance, there is no existing default under the 1978 Trust Agreement and certain projected or historical earnings tests are met. Such tests are to be based on information with respect to the Additional Improvements or Additional Facilities provided by recognized experts (as to estimated future Revenues), by the Consulting Engineers (as to cost and estimates of funds available to pay such cost, completion date, date on which such Additional Facilities or Additional Improvements will be placed in operation, and estimated future Operating Expenses), and by the Authority (as to historical financial information, estimated investment earnings and the Principal and Interest Requirements on the Additional Bonds). Certificates must be filed with the Trustee showing compliance with the following requirements:

A. If the Additional Bonds are issued to finance all or the first portion of the estimated cost of Additional Improvements, (i) Net Revenues in any twelve consecutive months of the last 18 months were at least 125% of the Principal and Interest Requirements on all Bonds outstanding during such twelve months, and (ii) the estimated average annual Net Revenues for the three fiscal years commencing immediately following the latest estimated date of placing in operation any Additional Improvements or Additional Facilities for which any Series of Bonds has been or is then being issued will be at least 130% of the

estimated maximum Principal and Interest Requirements in any year thereafter on account of all Bonds to be outstanding, including the estimated amount of Bonds to be issued in the future to complete such Additional Improvements or Additional Facilities.

B. If the Bonds issued under Paragraph A were issued to finance only the first portion of the estimated cost of Additional Improvements, subsequent Bonds may be issued to finance the cost of such Additional Improvements upon compliance with a test comparable to that set forth in clause (ii) of Paragraph A modified by changing the percentage contained therein to 125%.

C. If the Bonds are issued to finance all or the first portion of the estimated cost of Additional Facilities, the applicable test is comparable to that set forth in Paragraph A modified by changing the percentage in clause (ii) of Paragraph A to 140%.

D. If the Bonds issued under Paragraph C are issued to finance only the first portion of the estimated cost of Additional Facilities, subsequent Bonds may be issued to finance the cost of such Additional Facilities upon compliance with a test comparable to that set forth in clause (ii) of Paragraph A modified by changing the percentage contained therein to 135%.

E. Notwithstanding Paragraphs A, B, C and D, if the Additional Bonds are being issued to finance all or any part of the estimated cost of Additional Improvements or Additional Facilities, they may be issued if Net Revenues in any twelve consecutive months of the last 18 months were at least 125% of the maximum annual Principal and Interest Requirements on all outstanding Bonds, the Bonds then being issued and any subsequent Additional Bonds estimated to be issued to complete Additional Improvements or Additional Facilities for which a Series of Additional Bonds has been issued under Paragraph A or C. In addition to the statement by the Consulting Engineers described above, the Authority is required to file the certificate of the Consulting Engineers described below under "Restrictions on Additional Construction".

F. If Bonds are issued under Paragraph A or C to finance all of the then estimated cost of Additional Improvements or Additional Facilities, an additional Series of Bonds to complete such Additional Improvements or Additional Facilities may be issued without compliance with any of the tests in the paragraphs above.

With respect to any Additional Bonds which bear interest at a variable rate or a rate which is otherwise not subject to definite determination over the period of any calculation required by the 1978 Trust Agreement, all provisions of the 1978 Trust Agreement which require use of a definite interest rate for purposes of any calculation shall be applied as if the interest rate for such Additional Bonds were the rate estimated by a nationally known investment banking firm, selected by the Authority (which firm may be an owner or underwriter of any Bonds), to be the rate at which such Additional Bonds would bear interest if they bore a fixed rate for the entirety of their term. The provisions of the 1978 Trust Agreement requiring any calculation shall be applied to Additional Bonds which accrue and compound interest for all or any portion of the term thereof as if interest accrued during such period in the manner provided in such Additional Bonds. Any Additional Bonds may accrue interest at such rate or rates as are determined in accordance with the resolution of the Authority providing for their issuance and such interest may be payable on such date or dates, which may be other than January 1 and July 1, as are set forth in such resolution.

Issuance of Refunding Bonds (Sections 209 and 212)

Under the 1978 Trust Agreement the Authority may issue Additional Bonds for the purpose of refunding all or any part of the outstanding Bonds of any one or more issues or series then outstanding and paying issuance costs.

Such refunding Bonds may be issued only if one of the following conditions is met: (i) the Principal and Interest Requirements on account of all Bonds for each fiscal year until the year following the fiscal year in which

any non-refunded Bonds mature are not increased by reason of the refunding, (ii) the Net Revenues of the Authority during any twelve consecutive months out of the most recent 18-month period were not less than 125% of the maximum Principal and Interest Requirements for any fiscal year thereafter (giving effect to the refunding and any Bonds to be issued for the completion of Additional Improvements and Additional Facilities); or (iii) (a) the Net Revenues during any twelve consecutive months out of the most recent 18-month period were at least 125% of the Principal and Interest Requirements on all outstanding Bonds during such twelve months, and (b) the estimated average annual Net Revenues for the three fiscal years commencing immediately following the latest estimated date of placing in operation any Additional Improvements or Additional Facilities for which any series of Bonds has been issued will be at least 135% of the estimated maximum Principal and Interest Requirements for any year (giving effect to the refunding and any Bonds to be issued for the completion of Additional Improvements and Additional Facilities).

Issuance of Other Obligations (Section 216)

The 1978 Trust Agreement permits the Authority to issue obligations for any lawful purpose which are not secured by any pledge on, nor payable from, the Revenues or any of the Funds and Accounts created by the 1978 Trust Agreement.

The 1978 Trust Agreement permits the Authority, if permitted by law, to issue notes or other obligations for any purposes (as described above) for which Additional Bonds may be issued and to pledge moneys held for the credit of the Improvement and Extension Fund to the payment of principal and interest of such notes or other obligations which have been issued for any purpose for which the moneys held for the credit of such Fund may be disbursed. The Authority may also issue notes payable solely from the proceeds of the issuance of Additional Bonds or other permitted borrowing. The 1978 Trust Agreement also provides that the Authority may issue obligations the principal of and redemption premium, if any, and interest on which is payable from and secured by a pledge of and lien on the Revenues junior and subordinate to those created by the 1978 Trust Agreement for the benefit of the bondholders, provided that such obligations shall be payable solely from moneys in the Improvement and Extension Fund, from additional issues of such obligations, or, if such obligations were issued for purposes for which Additional Bonds could have been issued, from the proceeds of Additional Bonds thereafter issued.

Construction Fund (Article IV)

Under the 1978 Trust Agreement, the proceeds of all Additional Bonds or Notes issued to provide funds to pay the cost of Additional Improvements or Additional Facilities are to be deposited in separate Project Accounts within the Construction Fund. The Construction Fund is held by the Trustee. There may also be deposited in the appropriate Project Accounts other moneys received for the construction of Additional Improvements or Additional Facilities. Except for payments to cover interest on any Additional Bonds through the second interest payment date after completion of construction of the last of the Additional Improvements or Additional Facilities financed therewith (to the extent such interest payments are called for by the resolution of the Authority authorizing the issuance of such Additional Bonds), payments may be made only upon filing with the Trustee a requisition properly executed on behalf of the Authority and accompanied by an approving certificate of the Consulting Engineers and a certificate of the Authority to the effect that the obligations which are the subject of the requisition are due and payable. Any balance remaining in the appropriate Project Account in the Construction Fund upon completion of the Additional Improvements or Additional Facilities funded with a particular Series of Bonds not reserved by the Authority with the approval of the Consulting Engineers for the payment of any remaining cost thereof shall be transferred to the Improvement and Extension Fund.

Completion of Projects (Section 702)

The Authority covenants that forthwith after the issuance of any Series of Additional Bonds to finance Additional Improvements or Additional Facilities it will proceed with the construction or acquisition of such Additional Improvements or Additional Facilities. Such construction will be in accordance with plans approved by

the Consulting Engineers. If the Authority determines not to construct or acquire, or to reduce the scope of, any such Additional Improvements or Additional Facilities, it may construct other improvements or facilities or broaden the scope of such improvements or facilities if the recognized experts certify that there will be no overall cost increase and that the changes will not impair the operating efficiency of the Project or materially adversely affect estimated Net Revenues. However, in the case of the improvements or facilities financed with Bonds issued pursuant to Paragraph E under "Issuance of Additional Bonds" above, construction or acquisition may be suspended or abandoned without compliance with the preceding sentence and any unexpended Bond proceeds will be transferred to another Project Account in the Construction Fund or to the Redemption Account. In any event, if the Authority determines that changes in financial, economic or other conditions since the issuance of any Additional Bonds make it imprudent to continue construction or acquisition of the Additional Improvements or Additional Facilities financed therewith, then construction or acquisition may be suspended or abandoned and any unexpended Bond proceeds may be transferred to another Project Account in the Construction Fund or the Redemption Account, as the Authority may determine.

No Liens (Section 704)

The Authority covenants not to create or suffer to be created any lien upon any Project or any of the Revenues except the lien created by the 1978 Trust Agreement and the liens described under "Pledge Effected by the 1978 Trust Agreement" and "Issuance of Other Obligations" above. The Authority is required to pay or cause to be discharged all claims and demands which if unpaid might become such a lien, but is not required to provide for the payment and discharge of liens which are being contested in good faith and by appropriate legal proceedings.

Accountants, Consultants and Engineers (Section 706)

The 1978 Trust Agreement provides that the Authority (i) will, for the purpose of performing and carrying out the duties imposed on the Accountants by the 1978 Trust Agreement, employ a firm of independent certified public accountants of recognized ability and standing nationwide, (ii) will, for the purpose of performing and carrying out the duties imposed upon the Consulting Engineers, the Airport Consultants and the Traffic Engineers by the 1978 Trust Agreement, employ independent engineers or engineering firms having a nationwide and favorable repute for skill and experience in such work, and (iii) for the purpose of determining its annual pension expense and its annual post-retirement health benefit expense, may employ as Pension Consultants an independent actuarial consulting organization having a nationwide and favorable repute for skill and experience in such work. Other experts must be independent experts or firms of recognized ability and standing in their fields. The Consulting Engineers must prepare an annual report regarding maintenance of each Project and recommendations, including estimated costs, for maintenance and repair. Such reports are furnished to the Trustee and each Bondholder of Record. The Pension Consultants must submit annual reports setting forth the amount required to be transferred to the trustee for the Authority's pension plan in the next succeeding fiscal year.

Insurance (Sections 706 and 707)

The Authority covenants in the 1978 Trust Agreement that it will employ a Risk Management Consultant of recognized ability and standing nationwide to make recommendations with respect to insurance against direct physical damage and hazards, including the amounts thereof, with deductibles and exclusions and a program of self-insurance. The Risk Management Consultant will submit an annual report setting forth the insurance recommended to be carried or the program of self-insurance recommended to be undertaken. The Authority covenants that it will substantially comply with the recommendations of the Risk Management Consultant or with additional recommendations with respect to a reduced program of self-insurance if the Authority requests the Risk Management Consultant to make such additional recommendations. The Authority also covenants to carry insurance against loss of revenues due to physical loss or damage to its facilities and excess liability insurance substantially as recommended by the Risk Management Consultant. The 1978 Trust Agreement also provides that the Authority will provide such workers' compensation benefits or such employer's liability protection as may be required by law but may provide the same through self-insurance.

No Impairment of Tax Exemption (Section 709)

The Authority covenants that it will not take any action adversely affecting the federal income tax exemption of interest on the Bonds (except Bonds issued as taxable Bonds the interest on which is subject to federal income taxation) and will seek to preserve the exemption of interest on the Bonds from state income taxation. The Authority also will seek to preserve the exemption from federal income taxation of interest on the Bonds (except any Bonds issued as taxable Bonds the interest on which is subject to federal income taxation).

Restrictions on Certain Additional Facilities (Section 710)

The Authority covenants that it will not construct, acquire, or operate any building, structure or other facility, other than facilities financed by Additional Bonds issued under Paragraphs A through D under "Issuance of Additional Bonds" above, unless the Consulting Engineers file a statement to the effect that in their opinion the operation of such facility will not materially adversely affect the Net Revenues or impair the operating efficiency of the Projects taken as a whole.

Restrictions on Disposition of Property (Section 714)

The Authority covenants that it will not dispose of or encumber any Project or part thereof except that it may sell machinery, fixtures and other movable property if they are no longer needed or useful and the proceeds are applied to replacement or are deposited in the appropriate Project Account in the Construction Fund or in the Maintenance Reserve Fund, the Improvement and Extension Fund or the Redemption Account, as the Authority may determine. Subject to the provisions of the Authority's Enabling Act, real estate which the Authority, with the approval of the Consulting Engineers, determines is no longer needed or useful may be sold or may be exchanged for real estate if the Authority and Consulting Engineers declare such exchange advantageous. No approval of the Consulting Engineers is required for the sale or exchange of real estate where the aggregate value of the real estate and contiguous parcels sold or exchanged within two years is no more than $500,000.

Notwithstanding the preceding paragraph, the Authority may, if permitted by law, sell or exchange all or any part of a Project other than any property necessary for the efficient operation of the Airport, provided that certificates are filed with the Trustee showing compliance with the following requirements:

(A) no event of default is then existing under the 1978 Trust Agreement;

(B) the amount on deposit in the Reserve Account is at least equal to the maximum annual Principal and Interest Requirements for any fiscal year on account of all Bonds then outstanding; and

(C) pro forma estimates confirmed by recognized experts show that the average annual Net Revenues for the two preceding fiscal years after giving effect to such sale or exchange would be at least 140% of the maximum annual Principal and Interest Requirements in any fiscal year thereafter on all Bonds then outstanding.

The proceeds of any such sale are not Revenues. See "Certain Definitions" below. Such proceeds may be deposited in the Improvement and Extension Fund or the Redemption Account as the Authority may direct. The Enabling Act requires the approval of the Governor of the Commonwealth for the sale of any Airport Properties or Port Properties originally acquired from the Commonwealth and provides that any proceeds of such sale be paid to the Commonwealth.

Annual Budget (Section 505)

Under the 1978 Trust Agreement, the Authority agrees to adopt an Annual Budget prior to each fiscal year, setting forth expected Operating Expenses and Revenues of the Authority as a whole and of the Port Properties separately and deposits in the various Funds and Accounts described above, and to furnish copies thereof to the Trustee and each Bondholder of Record. The Authority may at any time adopt an amended Annual Budget for the remainder of the then current fiscal year which shall be treated as the Annual Budget. The Authority agrees that except for amounts payable from the Maintenance Reserve Fund it will not expend any amount or incur any obligations for maintenance, repair and operation in excess of the amounts provided for Operating Expenses in the Annual Budget, unless the excess is derived from a source other than Revenues.

Investments in Funds and Accounts (Section 602)

Moneys held in the various Funds and Accounts, not currently needed for the purposes of such Funds and Accounts, will be invested by the Authority, or the Trustee upon direction of the Authority, in Investment Securities, except that moneys held in a Term Bond Investment Account may be invested only in Government Obligations. See "Certain Definitions -- Investment Securities" and "-- Government Obligations" below. Securities purchased as an investment of moneys in any Fund or Account created under the 1978 Trust Agreement shall be valued at their amortized cost. The income received from such investment shall, in the case of the Construction Fund and the Self-Insurance Account, be applied as provided in the resolution creating such Account.

Events of Default and Remedies of Bondholders (Article VIII)

The 1978 Trust Agreement defines events of default to include, among others, failure to pay principal or redemption price when due or any installment of interest within 30 days after due, failure to make a required deposit in a Term Bond Investment Account relating to Additional Bonds as will permit the purchase of Government Obligations in accordance with the resolution authorizing such Additional Bonds, failure to carry on with reasonable dispatch the construction of any Additional Improvements or Additional Facilities (except as described above under "Completion of Projects"), and failure to perform the covenants contained in the 1978 Trust Agreement after notice. Certain grace periods, not exceeding 60 days in any case, are permitted for remedying certain defaults.

Upon the occurrence and continuance of an event of default the Trustee may, on its own initiative, and shall, upon the request of the holders of not less than 25% in principal amount of the Bonds then outstanding, declare the entire principal amount of all outstanding Bonds to be immediately due and payable. The Trustee may, and upon the request of not less than 25% in principal amount of all Bonds not then due by their terms shall, annul such declaration at any time before final judgment or decree in any suit instituted on account of the default or before completion of any other remedy, if all amounts then due on all outstanding Bonds by their terms and all other charges and liabilities of the Trustee and amounts payable by the Authority under the 1978 Trust Agreement have been paid or deposited with the Trustee and every other known default shall have been remedied.

Upon the happening and continuance of an event of default the Trustee may, on its own initiative, and shall, upon the request of the holders of not less than 25% in principal amount of the Bonds then outstanding and upon being indemnified to its satisfaction, proceed either at law or in equity to protect and enforce its rights and the rights of bondholders under the Enabling Act or the 1978 Trust Agreement. No holder of any Bonds shall have any right to institute any suit, action or other proceeding for the enforcement of any right under the 1978 Trust Agreement unless such holder shall give to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless the holders of 25% in principal amount of the Bonds then outstanding shall have made written request of the Trustee and shall have afforded the Trustee a reasonable opportunity to institute such suit, action or proceeding and unless there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liability to be incurred therein, and the Trustee shall have refused to comply with such request within a reasonable time. However, these provisions shall not limit

or impair the right of any bondholder to take any action to enforce the payment of the principal of, premium, if any, and interest on its Bond.

The Trustee shall mail to all registered owners of Bonds then outstanding at their addresses as they appear on the registration books, and all other Bondholders of Record, written notice of the occurrence of any event of default set forth above within 30 days after the Trustee shall have notice pursuant to the 1978 Trust Agreement that any such event of default has occurred.

Concerning the Trustee (Article IX)

Under the 1978 Trust Agreement, the Trustee is not obliged to institute any suit or proceeding or to defend any suit until indemnified against liabilities and expenses. Under the 1978 Trust Agreement, the Trustee is indemnified by the Authority from Revenues for any liabilities incurred in acting under the 1978 Trust Agreement. The Trustee is entitled to reasonable compensation for acting under the 1978 Trust Agreement and to reimbursement for any litigation expenses and other reasonable expenses by the Authority. If the Authority fails to make payment pursuant to such provisions for indemnity by the Authority or payment of compensation or expenses, the Trustee may obtain such payment from moneys held under the 1978 Trust Agreement and is entitled to a preference therefor over any of the Bonds. The 1978 Trust Agreement provides that the Trustee and its directors, officers, employees or agents, either for its or their own accounts or fiduciary accounts, may buy and sell and hold Bonds.

The Trustee may at any time resign upon at least 60 days' written notice. The Trustee may be removed at any time (a) by the holders of not less than a majority in principal amount of the outstanding Bonds, or (b) for breach of trust or failure to act in accordance with the 1978 Trust Agreement by a court upon application of the Authority or the holders of not less than 25% in principal amount of the outstanding Bonds. Any removal of the Trustee shall take effect upon the appointment of a new Trustee. If the position of Trustee shall become vacant for any reason, the Authority shall appoint a successor trustee, subject to the right of the holders of a majority in aggregate principal amount of the Bonds then outstanding to appoint a successor Trustee which shall supersede the appointee of the Authority. Any trustee must be a bank or trust company with at least $50,000,000 in aggregate capital and surplus.

The 1978 Trust Agreement also authorizes the Authority to replace the Trustee acting under the 1978 Trust Agreement, but only at five-year intervals and so long as no Event of Default exists under the 1978 Trust Agreement, upon 120 days written notice to the Trustee by filing with the Trustee an instrument signed on behalf of the Authority by its Secretary-Treasurer or other authorized officer.

Certain Rights of Bond Insurers (Section 1002)

With respect to any Series of Bonds or any maturity within a Series of Bonds all of the principal of and interest on which is insured by a bond insurance policy, if so provided in the resolution of the Authority authorizing the issuance of such Series, the terms “holder” and “owner” of Bonds and the term “bondholder”, each as used in the 1978 Trust Agreement, for purposes of all consents, directions and notices provided for in the 1978 Trust Agreement shall mean, with respect to the Bonds of such Series or maturity, as the case may be, the issuer of such bond insurance policy as long as such policy issuer has not defaulted under such policy; provided, however, that unless it actually is the beneficial owner of the Bonds in respect of which a consent is requested, the policy issuer shall not have the power to act on behalf of the registered owners of any Bonds to consent to amendments, supplements or waivers that would (a) extend the stated maturity of or time for paying the interest on such Bonds, (b) reduce the principal amount of, purchase price for or redemption premium or rate of interest payable on such Bonds or (c) result in a privilege or priority of any Bond over any other Bond.

Modifications of the 1978 Trust Agreement (Article XI)

Under the terms of the 1978 Trust Agreement, the Authority and the Trustee, without consent of the holders of the Bonds, are authorized to enter into a supplemental agreement or agreements to cure any ambiguity or formal defect or omission or to correct any inconsistent provisions or obvious mistake in the 1978 Trust Agreement, to grant to the Trustee for the benefit of the holders of the Bonds any additional lawful rights to security, to add to the conditions, limitations and restrictions on the issuance of Bonds, to add to the covenants of the Authority, to provide for the issuance of subordinated obligations or to provide for the issuance of obligations under a supplemental agreement which are not payable from Revenues. In addition, the 1978 Trust Agreement may be modified, altered, amended, added to or rescinded with the consent of the holders of not less than 51% in aggregate principal amount of the Bonds then outstanding or, if less than all Series of Bonds then outstanding are affected, the consent of the holders of not less than 51% in aggregate principal amount of each affected Series of Bonds. Notwithstanding the foregoing, without the consent of the holders of not less than 100% in aggregate principal amount of the Bonds then outstanding or, in case less than all of the several Series of Bonds then outstanding are affected thereby, the holders of not less than 100% in aggregate principal amount outstanding of each Series so affected, no such modification or amendment shall permit (a) an extension of the maturity of the principal of or the interest on any Bond issued thereunder, or (b) a reduction in the principal amount or redemption premium of any Bond or the rate of interest thereon, or (c) the creation of a lien upon or pledge of Revenues ranking prior to or on a party with the lien or pledge created by the 1978 Trust Agreement, or (d) a preference or priority of any Bond or Bonds except as permitted by the 1978 Trust Agreement, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such modification or amendment. In addition, there shall be permitted no impairment or diminution of the lien of New England Merchants National Bank (or its successor) as trustee under the 1964 Trust Agreement or the holders of the bonds of the Authority refunded by the 1978 Bonds, which lien was created by the Escrow Deposit Agreement established with the proceeds of the 1978 Bonds.

Defeasance (Article XII)

If the Authority shall pay or cause to be paid the principal, premium, if applicable, and interest to the holders of all outstanding Bonds, then the pledge of any Revenues and other moneys pledged under the 1978 Trust Agreement and all covenants, agreements and other obligations to the holders of Bonds shall terminate and be discharged and satisfied.

Bonds for the payment or redemption of which sufficient moneys, or sufficient Government Obligations the principal of and interest on which when due will provide moneys, to pay when due the principal, Amortization Requirements and interest on such Bonds have been irrevocably deposited with the Trustee for the sole purpose of paying or redeeming such Bonds will be deemed to have been paid within the meaning of the foregoing paragraph, provided that if any of such Bonds are to be redeemed prior to maturity, notice of such redemption must be duly given or irrevocable instructions to publish a notice to the bondholders, the form and content and substance of which are specified in the 1978 Trust Agreement, must have been given in form satisfactory to the Trustee.

Capital Appreciation Bonds (Section 1311)

Bonds of any Series may be issued with interest payable (i) only at their stated maturity date (or upon earlier redemption, purchase or acceleration) or (ii) in part at their stated maturity date (or upon earlier redemption, purchase or acceleration) and in part on stated interest payment dates, as set forth in the resolution authorizing the issuance of the Bonds. Any such Bonds shall be issued in fully registered form only and shall not be converted to coupon Bonds.

Certain Definitions

Certain terms used in this Official Statement have the following meanings:

Additional Facilities -- Any revenue-producing facility which serves a public purpose and the acquisition or construction and the financing of which by the Authority may hereafter be authorized by the legislature of the Commonwealth, excluding, however, any extension, enlargement or improvement of a project then under the control of the Authority and any building, structure or other facility financed or refinanced by the Authority by obligations not issued under the provisions of the 1978 Trust Agreement.

Additional Improvements -- Any extension, enlargement or improvement of a Project, other than the extension, enlargement or improvement of any building, structure or other facility financed or refinanced by the Authority by obligations not issued under the provisions of the 1978 Trust Agreement.

Amortization Requirements -- The amounts for the respective fiscal years as determined by the Authority for the retirement of term Bonds of a Series.

Bondholder of Record -- The registered owner of outstanding fully registered Bonds or Bonds registered as to principal alone (in either case in an aggregate principal amount of at least $500,000) or any holder of outstanding Bonds who shall have filed with the Secretary-Treasurer of the Authority a request in writing setting forth his name and address and the particular reports, notices or other documents which he desires to receive and which are required to be mailed to bondholders of record under the provisions of the 1978 Trust Agreement. So long as the 2007 Bonds are in book-entry only form, the Bondholder of Record thereof for the purposes of the 1978 Trust Agreement shall be DTC or DTC's partnership nominee (or a successor securities depository). See "THE 2007 BONDS -- Book-Entry Only Method."

Designated Debt -- Any Series of Bonds, or portion thereof, with respect to which there shall be in effect a Qualified Hedge Facility.

Government Obligations -- The securities referred to in clause (i) of the definition of Investment Securities. See below.

Investment Securities -- Any of the following which at the time of investment are legal investments under the laws of the Commonwealth for the moneys proposed to be invested therein:

(i) Direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America;

(ii) Bonds, indentures or notes or other evidences of indebtedness issued or guaranteed by any of the following agencies: Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Home Loan Mortgage Corporation; Federal Home Loan Banks; the Federal National Mortgage Association; the United States Postal Service; the Government National Mortgage Association; the Federal Financing Bank; or any other agency or instrumentality of the United States of America now existing or hereafter created;

(iii) New Housing Authority Bonds or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by, respectively, a pledge of annual contributions under an annual contributions contract or contracts or requisition or payment agreements with the United States of America;

(iv) Negotiable or non-negotiable bank time deposits evidenced by certificates of deposit issued by banks, trust companies, national banking associations or savings and loan associations (which may include the Trustee) provided that such time deposits are fully insured by the Federal Deposit Insurance Corporation or secured by obligations described in clauses (i), (ii) or (iii) of this definition or by full faith and credit obligations of (a) the Commonwealth or (b) any state of the United States rated in the three highest grades by a nationally recognized rating agency, provided such obligations at all times have a

market value at least equal to the maturity value of the deposits so secured, including accrued interest on such deposits;

(v) Repurchase agreements with banks described in clause (iv) of this definition (which may include the Trustee) or government bond dealers reporting to, trading with, and recognized as primary dealers by, a Federal Reserve Bank, the underlying securities of which are obligations described in clauses (i) and (ii) of this definition, provided that the underlying securities are required to be continuously maintained at a market value not less than the amount so invested;

(vi) Any bonds or other obligations of any state of the United States of America or of any local government unit of any such state which (1) are rated in the highest rating category by Moody's Investors Service and Standard & Poor's, without regard to gradations within categories, (2) are not callable unless irrevocable instructions have been given to the trustee for such bonds to give due notice of redemption and to call such bonds for redemption on the date(s) specified in such instruments, and (3) are secured by cash and Government Obligations;

(vii) Direct and general obligations of any state of the United States of America, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided such obligations are rated in either of the two highest rating categories without regard to gradations within categories by Moody's Investors Service and Standard & Poor's;

(viii) Obligations of any state of the United States of America or any political subdivision thereof which shall be rated in one of the two highest rating categories by Moody's Investors Service and Standard & Poor's without regard to gradations within categories;

(ix) Certificates that evidence ownership of the right to payments of principal of or interest on Government Obligations, provided that (1) such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a successor Trustee under the 1978 Trust Agreement, (2) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying Government Obligations, and (3) the underlying Government Obligations are held in a special account separate from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated;

(x) Commercial paper rated at the time of purchase in the highest rating category, without regard to gradations within such category, by Moody's Investors Service and Standard & Poor's;

(xi) Investments or deposits in the Massachusetts Municipal Depository Trust;

(xii) Money market funds rated in the highest rating category, without regard to gradations within such category, by Moody's Investors Service and Standard & Poor's;

(xiii) Investment contracts with banks (which may include the Trustee) or other financial institutions whose long-term unsecured debt or claims-paying ability is rated in one of the two highest rating categories by Moody's Investors Service and Standard & Poor's;

(xiv) Banker's acceptances rated at the time of purchase in the highest short-term rating category, without regard to gradations within such category, of Moody's Investors Service and Standard & Poor's; and

(xv) Any other investment authorized pursuant to an amendment or supplement to the 1978 Trust Agreement pursuant to Section 1101(g) of the 1978 Trust Agreement.

Section 1101(g) of the 1978 Trust Agreement authorizes modification of the definition of Investment Securities as directed by the Authority, provided that the Authority shall have provided evidence to the Trustee that the details of such modification have been provided in writing to each of Moody's Investors Service (if Moody's Investors Service is then assigning a rating to any outstanding Bonds), Standard & Poor's (if Standard & Poor's is then assigning a rating to any outstanding Bonds) and each other nationally recognized rating agency, if any, then assigning a rating to any outstanding Bonds and that each such rating agency has either (i) confirmed in writing that such modification will not adversely affect the rating it assigns to outstanding Bonds or (ii) issued a rating on a Series of Bonds to be issued which is not lower than the rating assigned by such rating agency to outstanding Bonds prior to such modification, or any other evidence satisfactory to the Trustee that such modification will not adversely affect the then current ratings, if any, assigned to the Bonds by any nationally recognized rating agency.

Operating Expenses -- The Authority's reasonable and necessary current expenses of maintaining, repairing and operating the Projects, including administrative expenses, insurance premiums and payments into the Self-Insurance Account, fees and expenses of the Trustee, engineering expenses relating to operation and maintenance, legal expenses, charges of Paying Agents, payments of annual pension expense and post-retirement health benefits expense, any taxes of general applicability which may be lawfully imposed on the Authority or its income or operations or the property under its control and reserves for such taxes, ordinary and usual expenditures for maintenance and repair, which may include expenses not annually recurring, including such expenditures necessary to maintain the then useful life and operational status of any Project or to keep any Project in its present operational status and all such other costs of maintenance and repair as the Authority may determine to include in Operating Expenses in accordance with sound business practice applied on a consistent basis and any other expenses required to be paid by the Authority under the provisions of the 1978 Trust Agreement or by law on account of the operation or ownership of the Projects, but excluding payments in lieu of taxes, reserves for operation, maintenance or repair, depreciation allowances or any deposits or transfers to the credit of any of the Funds or Accounts created under the 1978 Trust Agreement except the Self-Insurance Account.

Principal and Interest Requirements -- With respect to any Series of Bonds, the sum during any fiscal year of (a) interest payable on all Bonds of such Series outstanding which accrues in such fiscal year (less capitalized interest and interest paid or to be paid for such period from moneys in the Construction Fund), (b) principal payable on serial Bonds of such Series on any date commencing with July 2 in such fiscal year and ending with July 1 of the next fiscal year, both inclusive, (c) the Amortization Requirements of such Series for such fiscal year plus the premium which would be payable on any date referred to in subparagraph (b) above if such Amortization Requirements were then applied to redeem Bonds, and (d) the amount required to be deposited in the Term Bond Investment Account (if such an Account is established for such Series of Bonds), if any, for such fiscal year; less income to be accrued during the year on investments in such a Term Bond Investment Account to the extent such income is required to be retained in such Account or deposited in the Bond Service Account or into the Redemption Account.

Regarding the calculation of Principal and Interest Requirements on variable-rate debt, see "SECURITY FOR THE 2007 BONDS -- Additional Bonds". In computing the Principal and Interest Requirements, Designated Debt which bears interest at a variable rate and with respect to which there exists a Qualified Hedge Facility obligating the Authority to pay a fixed interest rate or a different variable interest rate shall be deemed (for the period during which such Qualified Hedge Facility is reasonably expected to remain in effect and notwithstanding the third paragraph of this definition) to bear interest at the fixed interest rate or different variable rate payable by the Authority pursuant to the Qualified Hedge Facility relating thereto. In computing Principal and Interest Requirements, Designated Debt which bears interest at a fixed rate and with respect to which there exists a Qualified Hedge Facility obligating the Authority to pay a floating rate shall be deemed (for the period during which such Qualified Hedge Facility is reasonably expected to remain in effect) to bear interest equal to the interest payable on the Designated Debt, minus the fixed amounts received or to be received by the Authority under the Qualified Hedge Facility, plus the amount of the floating payments made or to be made by the Authority under the Qualified Hedge Facility (such floating payments not yet made to be determined as provided in the third paragraph of this definition).

Qualified Hedge Facility -- Any interest rate exchange, interest rate cap or other transaction which is intended to convert or limit the interest rate payable with respect to all or part of a particular Series of Bonds and which (a) is with a Qualified Hedge Provider and (b) has been designated in writing to the Trustee by the Authority as a Qualified Hedge Facility with respect to all or part of a particular Series of Bonds;

Qualified Hedge Provider -- A financial institution (a) whose senior long-term obligations are rated not lower than "A1" or the equivalent by Moody's Investors Service and not lower than "A+" or the equivalent by Standard & Poor's or (b) whose obligations under each Qualified Hedge Facility (i) are guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt obligations are rated not lower than "A1" or its equivalent by Moody's Investors Service and not lower than "A+" or its equivalent by Standard & Poor's or (ii) are fully secured by investments described in clause (i) or (ii) of the definition of "Investment Securities" in this Section 101 which (A) are valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 100% of the Authority's exposure in respect of such Qualified Hedge Facility, (B) are held by the Trustee or a custodian other than the Qualified Hedge Provider and (C) are subject to a perfected lien in favor of the Authority or the Trustee free and clear of all third-party liens. Project -- Any of the Bridge, the Airport Properties, the Port Properties or any Additional Facility financed in whole or in part under the provisions of the 1978 Trust Agreement, either from the proceeds of Bonds or other available funds, including in the case of each such Project all equipment, appurtenances, extensions, enlargements, improvements, renewals and replacements thereof, but shall not include any land, building, structure or other facility financed or refinanced by the Authority by obligations not issued under the provisions of the 1978 Trust Agreement.

Replacement Cost -- As of any date of calculation the then present-day cost to replace or reconstruct all or any of the physical facilities of the Authority to their current use or operational status with materials then used in accordance with sound construction practice but shall exclude (a) the cost to reconstruct or replace all below-ground or below-water foundations and utility improvements and the cost of land, landfill and site improvements and (b) if and to the extent that the Authority shall have so notified the Trustee in writing, the cost to reconstruct or replace any facility financed with the proceeds of obligations other than Bonds, which obligations are not secured by any pledge, lien or charge on, nor payable from, the Revenues or any of the Funds and Accounts created by the 1978 Trust Agreement.

Revenues -- All moneys derived or to be derived by the Authority in payment of tolls, rates, fees, rentals and other charges for the use of, and for the services and facilities furnished by, the Projects, any proceeds of use and occupancy and liability insurance (but not casualty insurance proceeds or awards for damages), the proceeds of leases, licenses, permits and concessions, and other income from the ownership or operation of the Projects, including income from investments except those in the Construction Fund, the Port Properties Fund, the Self-Insurance Account, any pension or post-retirement health benefit account in the Operating Fund and the Term Bond Investment Account; but excluding (i) moneys derived from facilities financed with the proceeds of obligations not secured by or payable from Revenues to the extent such moneys are pledged to the payment of such obligations, (ii) proceeds of casualty insurance or awards for damages, (iii) proceeds of sales of Bonds, (iv) proceeds of the sale or other disposition of property pursuant to the 1978 Trust Agreement and (v) except to the extent from time to time provided by the Authority by resolution, the proceeds of any passenger facility charge or similar tax levied by or on behalf of the Authority pursuant to the Federal Aviation Safety and Capacity Act of 1990 as from time to time amended, and any successor thereto, and the proceeds of any other charge or tax from time to time levied by or on behalf of the Authority pursuant to any federal statute or regulation enacted or promulgated after May 15, 2003 which restricts the use of such proceeds to purposes identified in or pursuant to such statute or regulation. The Authority has excluded from Revenues the proceeds of PFCs. See "SECURITY FOR THE 2007 BONDS -- Passenger Facility Charges."

Term Bond Investment Account -- For a Series of Bonds shall mean each Account so designated which is established in the Interest and Sinking Fund for the term Bonds of such Series pursuant to the resolution of the Authority authorizing the issuance of such Series of Bonds. (No such Account will be established for any of the 2007 Bonds.)

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FORM OF
CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the Massachusetts Port Authority (the "Issuer") and State Street Bank and Trust Company* (together with any successor, the "Dissemination Agent") in connection with the issuance of one or more series of bonds by or on behalf of the Issuer and designated by duly adopted resolution of the Issuer as subject to and having the benefits of this Disclosure Agreement (such bonds referred to herein collectively as the "Bonds"). The Issuer and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer and the Dissemination Agent for the benefit of the owners of Bonds and in order to assist Participating Underwriters in complying with the Rule (as defined below).

SECTION 2. Definitions. In addition to terms defined elsewhere in this Disclosure Agreement, the following capitalized terms shall have the following meanings:

"Annual Filing" shall mean any Annual Filing provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Disclosure Representative" shall mean the Chief Financial Officer/Director of Administration and Finance of the Issuer, or such other officer or employee as the Issuer shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean State Street Bank and Trust Company, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer and the Trustee a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any nationally recognized municipal securities information repository for purposes of the Rule. The current National Repositories are listed on Exhibit A attached hereto.

"Owners of the Bonds" or "Owners" shall mean the registered owners, including beneficial owners, of the Bonds.

"Participating Underwriters" shall mean the original underwriters of any Bonds required to comply with the Rule in connection with offering of such Bonds.

"Repository" shall mean each National Repository and the State Depository, if any.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

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* State Street Bank and Trust Company is the predecessor to U.S. Bank National Association. The Continuing Disclosure Agreement was entered into as of August 1, 1997 between the Authority and State Street Bank and Trust Company.

"State Depository" shall mean any public or private repository or entity designated by The Commonwealth of Massachusetts (the "Commonwealth") as a state information depository for the purpose of the Rule.

"Trust Agreement" shall mean the Trust Agreement dated as of August 1, 1978, as amended and supplemented, between the Issuer and State Street Bank and Trust Company, as Trustee.

SECTION 3. Provision of Annual Filings.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than January 1 of each year, commencing January 1, 1998, provide to the Trustee and to each Repository an Annual Filing which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) business days prior to said date, the Issuer shall provide the Annual Filing to the Dissemination Agent. In each case, the Annual Filing may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted, when available, separately from the balance of the Annual Filing.

(b) If by fifteen (15) business days prior to the date specified in subsection (a) for providing the Annual Filing to Repositories, the Dissemination Agent has not received a copy of the Annual Filing, the Dissemination Agent shall contact the Issuer to determine if the Issuer is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Filing has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice in a timely manner to the Municipal Securities Rulemaking Board and the State Depository, if any, in substantially the form attached as Exhibit B.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Filing the name and address of each National Repository and each State Depository, if any; and

(ii) file a report with the Issuer certifying that the Annual Filing has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Filings. The Issuer's Annual Filing shall contain or incorporate by reference the following:

(a) operating data for, or as of the end of, the preceding fiscal year of the type presented in the Issuer's most recent official statement, including data relating to (i) the market shares of total Airport passenger traffic, (ii) the percentage of passengers traveling on U.S. air carrier airlines between the Airport and other final domestic destinations, (iii) general Airport traffic statistics and (iv) cargo and passenger activity relating to the Port Properties;

(b) financial information for, or as of the end of, the preceding fiscal year of the type presented in the Issuer's most recent official statement, including a summary of operating results and debt service coverage; and

(c) the most recently available audited financial statements of the Issuer, prepared in accordance with generally accepted accounting principles. (If audited financial statements for the preceding fiscal year are not available when the Annual Filing is submitted, the Annual Filing will include unaudited financial statements for the preceding fiscal year.)

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it

must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Material Events.

(a) The Issuer shall give notice, in accordance with subsection 5(b) below, of the occurrence of any of the following events with respect to any Bonds, if material:

(i) Principal and interest payment delinquencies.

(ii) Non-payment related defaults.

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties.

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties.

(v) Substitution of credit or liquidity providers, or their failure to perform.

(vi) Receipt by the Issuer of an adverse tax opinion or the occurrence of an event affecting the tax-exempt status of any Bonds.

(vii) Modifications to rights of any Owners of the Bonds.

(viii) Bond calls (other than regularly scheduled redemptions).

(ix) Defeasance of any Bonds or any portion thereof.

(x) Release, substitution or sale of property securing repayment of any Bonds.

(xi) Rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, if such Listed Event is material under applicable federal securities laws, the Issuer shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d).

(c) If such Listed Event is not material, the Issuer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (d).

(d) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence promptly with the Municipal Securities Rulemaking Board and the State Depository, if any.

(e) Anything in this Section 5 to the contrary notwithstanding, neither the Issuer nor the Dissemination Agent shall have any obligation to give notice of or otherwise report any Listed Event with respect to any series of Bonds as to which another obligated person (as such term is defined in the Rule) has entered into an undertaking to provide such notice in accordance with the Rule.

SECTION 6. Termination of Reporting Obligation. The Issuer's and Dissemination Agent's obligations under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Issuer), and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is permitted by the Rule, as evidenced by an opinion of counsel expert in

federal securities laws acceptable to both the Issuer and the Dissemination Agent to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Filing for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Issuer to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in the accounting principles shall be sent to each Repository.

SECTION 8. Default. In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Agreement the Dissemination Agent may (and, at the request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount outstanding of any series of Bonds, shall), or any Owner of any Bonds may seek a court order for specific performance by the Issuer or Dissemination Agent, as the case may be, of its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Trust Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance of the defaulting party's obligations hereunder and not for money damages in any amount.

SECTION 9. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and, to the extent permitted by law, the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or wilful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Dissemination Agent shall not be responsible for determining whether the Issuer's Annual Filing meets the requirements of the Rule or contains all of the information required under Section 4 hereof.

SECTION 10. Fees. The Issuer will pay the Dissemination Agent its reasonable fees and expenses incurred in connection with this Disclosure Agreement, including fees and expenses incurred as a result of any action taken by the Trustee under Section 8 hereof.

SECTION 11. Replacement of Dissemination Agent. The Authority, in its sole discretion, may replace the Dissemination Agent at any time with a successor Dissemination Agent by so notifying the Dissemination Agent in writing; provided, however, that any such replacement shall not be effective until a successor Dissemination Agent has been duly appointed.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, Participating Underwriters and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 14. Notices. Unless otherwise expressly provided, all notices to the Issuer and the Dissemination Agent shall be in writing and shall be deemed sufficiently given if sent by registered or certified mail, postage prepaid, or delivered during a business day.

SECTION 15. Governing Law. This instrument shall be governed by the laws of the Commonwealth.

IN WITNESS WHEREOF, the parties have caused this Disclosure Agreement to be duly executed under seal all as of the date hereof.

Date: August 1, 1997

MASSACHUSETTS PORT AUTHORITY

By____________________________
Title:

STATE STREET BANK AND TRUST
COMPANY, Dissemination Agent

By______________________________________
Authorized Officer

EXHIBIT A

NATIONAL REPOSITORIES

Bloomberg Financial Markets Municipal Repository
P.O. Box 840
Princeton, New Jersey 08542-0840
PH: (609) 279-3200
FAX: (609) 279-5962
Internet: MUNIS@bloomberg.com

The Bond Buyer
Attn: Municipal Disclosure
395 Hudson Street, Third Floor
New York, New York 10014
PH: (800) 689-8466
PH: (212) 807-5001
FAX: (212) 989-2078
Internet: Disclosure@muller.com

DPC Data, Inc.
One Executive Drive
Fort Lee, New Jersey 07024
PH: (201) 346-0701
FAX: (201) 947-0107
Internet: nrmsir@dpcdata.com

J.J. Kenny
Attn: Repository
65 Broadway, 16th Floor
New York, New York 10006
PH: (212) 770-4586
FAX: (212) 770-0222
FAX: (212) 770-0223

EXHIBIT B

NOTICE OF FAILURE TO FILE ANNUAL FILING

Name of Issuer:

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Filing as required by the Continuing Disclosure Agreement dated as of July __, 1997 between the Issuer and State Street Bank and Trust Company. The Issuer anticipates that the Annual Filing will be filed by ___________________.

Dated: ________________

State Street Bank and Trust Company
on behalf of the Issuer

By__________________________________

cc: Massachusetts Port Authority

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ROPES & GRAY LLP
ONE INTERNATIONAL PLACE BOSTON, MA 02110-2624 617-951-7000 F 617-951-7050
BOSTON NEW YORK PALO ALTO SAN FRANCISCO WASHINGTON, DC www.ropesgray.com

[Date of delivery]

Massachusetts Port Authority
One Harborside Drive
Suite 200S
East Boston, Massachusetts 02128

Re: Massachusetts Port Authority $51,465,000 Revenue Bonds, Series 2007-A (the "2007-A Bonds") and $32,125,000 Revenue Refunding Bonds, Series 2007-C (the "2007-C Bonds" and, together with the 2007-A Bonds, the "2007 Bonds"), issued under a Trust Agreement dated as of August 1, 1978 as amended and supplemented (the "Agreement"), by and between the Massachusetts Port Authority (the "Authority") and U.S. Bank National Association, as Trustee (the "Trustee")

Ladies and Gentlemen:

We are Bond Counsel to the Authority and have supervised, as to legality, its proceedings for the authorization, issue and sale of the 2007 Bonds.

We have examined Chapter 465 of the Massachusetts Acts of 1956, as amended (said Chapter 465 as so amended being hereinafter called the "Enabling Act"), and other applicable statutes; an executed copy of the Agreement; a resolution of the Authority providing for the issuance of the 2007 Bonds adopted May 17, 2005 (the "2007 Bond Resolution"); certified copies of the by-laws of the Authority relating to the 2007 Bonds and to the Agreement and such certificates and such other papers relating to the Authority, to the 2007 Bonds and to the Agreement, and have made such other examination, as we have deemed necessary in connection with this opinion.

Terms used herein that are defined in the Agreement are used with the meanings so defined.

Based on the foregoing, we are of the opinion that:

1. The Authority is duly constituted and validly existing as a body politic and corporate and a public instrumentality with sufficient power and authority to adopt the 2007 Bond Resolution and to issue the 2007 Bonds.

2. The 2007 Bonds are authorized by the Enabling Act, and have been duly authorized by the 2007 Bond Resolution, for the purposes specified in Sections 9 and 19 of the Enabling Act.

3. The Agreement is authorized by the Enabling Act and has been duly authorized, executed and delivered by the Authority, and, subject to the qualification expressed in paragraph 4 below, the Agreement and the 2007 Bond Resolution are valid and binding obligations of the Authority.

4. All conditions precedent to the delivery of the 2007 Bonds set forth in the Agreement and the 2007 Bond Resolution have been fulfilled and the 2007 Bonds have been executed, authenticated and delivered and are valid and binding obligations of the Authority as provided in the Enabling Act and in the Agreement. Obligations of the Authority, including the Agreement, the 2007 Bond Resolution and the 2007 Bonds, are subject to laws of bankruptcy and insolvency and to other laws and the exercise of judicial discretion affecting the rights and remedies of creditors. The Revenues of the Authority would be subject to a claim superior to the claim thereon of the holders of the 2007 Bonds on account of payment of principal of and interest on (and certain costs of administration and indemnification related to) certain prior bonds in the event that the government securities held in escrow for the defeasance of such bonds do not provide sufficient funds to make such payments when due. We have inquired of appropriate officers of the Authority and have been advised that no such superior claims have been asserted.

5. Neither The Commonwealth of Massachusetts nor any political subdivision thereof is obligated to pay any of the 2007 Bonds or the interest thereon, and neither the faith and credit nor the taxing power of The Commonwealth of Massachusetts or any political subdivision thereof is pledged to the payment of the principal of or interest on the 2007 Bonds.

6. Under existing law, interest on the 2007 Bonds (which includes any original issue discount properly allocable thereto) is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the “Code”) (except, with respect to the 2007-C Bonds, for any period during which a 2007-C Bond is held by a "substantial user" of the facilities financed by the 2007-C Bonds, or a "related person" of such substantial user within the meaning of Section 147(a) of the Code). However, interest on the 2007-C Bonds, but not the 2007-A Bonds, is an item of tax preference for purposes of the federal alternative minimum tax imposed on certain taxpayers, and interest on the 2007-A Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed upon certain corporation. Moreover, the receipt of interest on the 2007 Bonds may have certain collateral tax consequences under federal tax law. The opinion set forth in the first sentence of this paragraph is subject to the condition that the Authority comply with all requirements and restrictions in the Code that must be satisfied subsequent to the issuance of the 2007 Bonds in order that interest thereon be, and continue to

be, excluded from gross income for federal income tax purposes, including without limitation requirements and restrictions relating to the use and expenditure of the proceeds of the 2007 Bonds, the investment thereof and the rebate of certain earnings thereon to the United States government. The Authority has covenanted to comply with such requirements and restrictions. Failure to comply with such requirements and restrictions may cause the inclusion of interest on the 2007 Bonds in gross income for federal income tax purposes retroactive to the date hereof. We express no opinion regarding any federal tax consequences arising with respect to the 2007 Bonds other than as set forth in the first sentence of this paragraph.

7. Interest on the 2007 Bonds and any profit made on the sale thereof are exempt under existing law from Massachusetts personal income taxes, and the 2007 Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding other Massachusetts tax consequences arising with respect to the 2007 Bonds, or regarding the tax consequences of states other than The Commonwealth of Massachusetts.

Very truly yours,

Ropes & Gray LLP

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No.: -N

BONDS: Effective Date:

Premium: $

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

SPECIMEN

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By ______________________________

By ______________________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019
(212) 826-0100

Form 500NY (5/90)

MASSACHUSETTS PORT AUTHORITY • REVENUE BONDS, SERIES 2007-A (NON-AMT) AND REVENUE REFUNDING BONDS, SERIES 2007-C (AMT)

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